May 1959

THE CANADIAN CHARTERED ACCOUNTANT

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

Long and Short-Range Planning

The Accountant and Labour-Management Relations

Organizing an Integrated Procedures Plan

Depreciation: Theory and Practice

Corporate Taxation in Quebec

PRACTITIONERS FORUM: Mergers

ACCOUNTING RESEARCH: The Auditor's Responsibility re Inventories

TAX REVIEW: Non-Resident-Owned Investment Corporations

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THE CANADIAN
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EDITORIAL PAGE

Training and Education for Accountants 399

ARTICLES

Long and Short-Range Planning 401
Pieter Bakker

The Organization of an Integrated Procedures Plan 408
Reginald D. Richardson

Corporate Taxation in Quebec 415
John P. Kinghorn

The Accountant's Part in Labour-Management Relations 421
Frank A. Stanley

Depreciation: Current Theory and Practice 427
John R. E. Parker

DEPARTMENTS

Accounting Research 433
Tax Review 437
Practitioners Forum 443
Students Department 450
Current Reading 457

MONTHLY FEATURES

In This Issue 384
Notes and Comments 392
News of Our Members 464
Institute Notes 466

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IN THIS ISSUE

PIETER BAKKER (page 401)

What actually is the basic economic motive behind the existence of business? It is profit, or more precisely, the greatest return on the capital invested, says Pieter Bakker in his article "Long and Short-Range Planning". He shows how the future must always be considered and points out that planning for it is certainly one of management's most creative tasks. The fact that some companies experience a high rate of growth while others are distinguishable by a lower growth rate can be related to every basic management decision. Nothing drains the enthusiasm and energy of a responsible and capable staff more than ill-defined policy and indecisive management. The author believes that successful planning must be coordinated so as to avoid overlapping and delays in related and consecutive operations. He stresses that good short and long-term planning must take into consideration the effects of the business cycle on the company's planned activities.

Mr. Bakker is treasurer of Philips Electronics Industries Limited, Toronto. From 1929 to 1952 he was associated with Philips' Gloeilampenfabrieken in Eindhoven, Holland, where he was, for some years, chief accountant and, subsequently, secretary to the company's Central Budget Committee.

R. D. RICHARDSON (page 408)

Interest in integrated data processing is growing. Business is devoting considerably more attention to administrative affairs and seeking ways of handling information with greater speed and accuracy by integrated means, i.e. by methods that unify the whole operation. This need is intensified, writes Reginald D. Richardson in "Organization of an Integrated Procedures Plan", "by the increasing complexity of social affairs and by the fact that the issue has been joined between the major powers of the world as to the relative efficiency of two divergent ways of life, now for the first time on economic grounds as well as ideological". Because such thinking stimulates a fresh outlook on the future of business, it is all to the good and, in the interests of overall integration, the author examines what he considers to be the most important steps towards such a unified program and the main operations that can be linked to achieve it.

Mr. Richardson joined Canadian General Electric Company Limited in 1940 and five years ago was appointed manager-finance of the company's apparatus operations with headquarters in Peterborough, Ontario. Prior to this, he held the senior financial post for all appliance operations. During the company's recent decentralization program, he was a member of various groups with the responsibility of planning the reorganization. He has contributed articles to management and business journals and gained recognition as a speaker in both Canada and the United States on the subject of budgetary control.

J. P. KINGHORN, C.A. (page 415)

The definition of "doing business" in the Province of Quebec, as it applies to the Quebec Corporation Tax Act, is a subject of extreme interest and importance to Canadian

Continued on page 386

Continued from page 384

corporations in other provinces. Difficulties in interpretation often arise and, as a result, may have a direct bearing on whether or not companies are taxable in the province of Quebec. According to John P. Kinghorn, "Until there is one definition of income earned in the province that is acceptable to all taxing authorities, the problems of income subject to tax will remain." In "Corporate Taxation in Quebec", Mr. Kinghorn presents a study of the Act and some of its more controversial issues and compares it with the federal Income Tax Act and the Ontario Corporations Tax Act which was revised when the province returned to the field of direct taxation of corporations and companies in 1957.

Mr. Kinghorn is a partner in the Montreal office of Riddell, Stead, Graham & Hutchison with whom he has been associated for the past 30 years. He is presently a member of the Taxation Committee of the Canadian Institute of Chartered Accountants. He was admitted to the Institute of Chartered Accountants of Scotland in 1928 and to the Institute of Chartered Accountants of Quebec in 1934.

F. A. STANLEY, C.A. (page 421)

In "The Accountant's Part in Labour - Management Relations", Frank A. Stanley points up the various services which the accountant can perform when a unionized industry is called upon to negotiate a labour contract. Facts and objectivity are the great need in labour negotiations, and it is in the field of statistics, wage comparisons and the costs of benefits under consideration that the accountant can help to a considerable

Continued on page 388

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Continued from page 386

extent in making labour negotiations speedier, fairer and less destructive.

Mr. Stanley is comptroller of De Havilland Aircraft of Canada Limited and has been a member of the Institute of Chartered Accountants of Ontario since 1935. He is also a member of the Controllers Institute of America. He was formerly secretary-treasurer of Trinidad Leaseholds (Canada) Limited, and has taken an active "behind the scenes" interest in labour-management relations.

J. R. E. PARKER, C.A. (page 427)

In the past *The Canadian Chartered Accountant* has published many articles on depreciation and, as John R. E. Parker points out in his article "Depreciation: Current Theory and Practice", it remains one of the most controversial topics in accounting theory. While the author has been careful to avoid showing any preference as regards one concept of depreciation over another, his study, nevertheless, is an attempt to place the subject in perspective so that accountants and business executives can more readily form their own conclusions. The range of theories and concepts remains wide, and different situations require different approaches.

Mr. Parker is Assistant Professor, Faculty of the College of Commerce at the University of Saskatchewan. After receiving his B.Com. degree from Dalhousie University in 1952, he articled with the Halifax firm of Nightingale, Hayman & Company and in 1954 was admitted to membership in the Institute of Chartered Accountants of Nova Scotia. He is presently working for his Masters Degree in Business Administration at the University of Washington.

Continued on page 390

Continued from page 388

EDITORIAL (page 399)

A direct result of Canada's rapidly expanding economy is the intense interest being displayed in problems associated with better education, and perhaps few professions are more concerned with this matter than is accountancy. Demands on the accountant continue to grow and the profession will want to keep abreast of them if it is to give the greatest service possible to the business community. In this month's editorial "Training and Education for Accountants", William H. Gray presents his views on some of the ways in which the profession can prepare itself to meet the future needs of business and industry.

Mr. Gray is a partner in the Winnipeg office of Price Waterhouse & Company and has long been active in matters relating to the training and education of accountants in the Province of Manitoba. A member of the profession since 1942, he is a past chairman of the Provincial Institutes' joint committee on Education and Examinations and is presently a member of Council and treasurer of the Manitoba Institute of Chartered Accountants.

Forthcoming Features

THE ACCOUNTANT AND THE FARMER

SALES PRODUCTION AND FINANCIAL PLANNING

CURRENCY EXCHANGE CONVERTIBILITY

THE BUDGET: LOOKING IN A NEW DIRECTION

NOTES AND COMMENTS

C.I.C.A. Research Bulletin No. 16

"The Auditor's Responsibility for the Validity of the Inventory Figure" is the subject of a new research bulletin issued this month by the C.I.C.A. Committee on Accounting and Auditing Research and now being mailed to all members. Superseding Bulletin No. 7, Bulletin No. 16 recognizes that attendance at stocktaking should be regarded as standard practice. The text of the bulletin, together with a commentary, appears at page 433.

Public Accountants Council

Officers elected for the 1959 year of the Public Accountants Council of the Province of Ontario are: president, D. F. McKechnie, C.P.A., Ottawa; vice-president, C. K. MacGillivray, F.C.A., Hamilton; secretary, H. R. Macdonald, F.C.A., Toronto; treasurer, G. B. MacDonald, C.P.A., Toronto.

Tax Foundation News

Campbell W. Leach, C.A., Montreal, was elected chairman of the Canadian Tax Foundation on March 24, 1959. Mr. Leach is the editor of the Tax Review in *The Canadian Chartered Accountant*. Stuart Thom, Q.C. and A. J. Little, F.C.A., Toronto, were elected vice-chairmen of the Foundation.

Other chartered accountants elected to the Board of Governors are G. F. Dunn, Victoria; W. F. Anderson, Calgary; L. E. Fingarson, Regina; G. N. Wildgoose, Winnipeg; W. R. Kay and W. A. Simonton, Toronto; Marcel Caron and J. P. Kinghorn, Montreal; Paul Bruneau, Quebec; G. K. McKenzie, Saint John; H. E. Spencer, Halifax; John Hyslop, St. John's.

The Foundation has announced that it will be carrying out a continuing program dealing exclusively with financial and tax problems of Canadian municipalities. F. H. Finnis has been appointed municipal research associate and will head this new research activity of the Foundation.

Individual membership in the Foundation increased nearly 30% during 1958 and now exceeds 2000. Some 800 Canadian companies are also supporting its work.

Systems Association Meeting

The 1959 International Systems Meeting will be held from October 12 to 14 at the Royal York Hotel, Toronto. Hosts for the conference will be the Toronto and Hamilton chapters of the Systems and Procedures Association of America. The association has a membership of 2700 in 15 countries.

AMA Meeting

Some 250 executives from Canada and the United States will consider problems in Finance, manufacturing, marketing and packaging at a series of small-group meetings to be held at the Sheraton-Mt. Royal Hotel from June 8 to 10 by the American Management Association. A total of 13 meetings will be held.

"Blueprint" for Education

The Canadian Conference on Education, of which the Canadian Insti-

Continued on page 394

Continued from page 392

tute of Chartered Accountants is a participating member, has now issued a 591-page book reporting the addresses and proceedings of the conference which was held in Ottawa in February. This valuable reference on educational matters may be obtained by writing the Canadian Conference on Education, Ste. 210, 85 Sparks St., Ottawa 4. Copies are $3.00 each (paper-bound) and $4.00 each (hard-cover).

American Institute Nominations

J. S. Seidman, a partner in the firm of Seidman & Seidman, New York, has been nominated for the position of president of the American Institute of Certified Public Accountants. Mr. Seidman is the author of a 4-volume book entitled "Legislative History of the Income Tax Law". In addition, he is well known as a Broadway "angel" having backed more than 60 shows, including *Brigadoon* and *Wonderful Town*.

Continued on page 396

Students Department

Beginning this month, the department in *The Canadian Chartered Accountant* devoted to students is being revised in order to increase its value and provide greater variety in educational material. In recent years, the department has been confined almost entirely to the publication of examination problems and unofficial solutions to them. The type was held until the majority of these had been published in the magazine, and from this standing type the solutions brochure was published each year approximately 18 months after the release of the corresponding examination brochure.

It has now been decided to withhold such material from the magazine and enable valuable space in the department to be devoted to practical articles contributed by chartered accountants in charge of staff training with public accounting firms, condensations of talks given at students' association meetings, and problems of unusual interest to students which invite editorial comment. From now on, solutions to examinations will be edited promptly and made available to students about 6 months, instead of 18 months, after the examination results have been released and in time for the students to study them before the examinations of the next year.

Under the planned revision, the department will appear alternate months but actually there will be an increase in the *total* amount of material available to students. In addition to the bi-monthly features in the magazine, the solutions will be appearing annually in a brochure.

The Canadian Chartered Accountant will continue its present policy of presenting the best available articles and the most useful department material that can be obtained. It recognizes that one of our greatest needs is to give the widest possible training to students who, in their turn, will become responsible for the future of the profession.

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George Morgan, Manager, Order and Billing Depts., Honeywell Controls Limited

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Continued from page 394

Nominated as vice-presidents are F. L. Arnold, Dayton, Ohio; R. S. Bock, Pasadena, California; E. J. McDevitt, Winchester, Massachusetts; and H. A. Pickens, Fort Worth, Texas.

Directory Information

It has been decided that the alphabetical listing of members by provinces for the 1959 edition of the *Directory of Canadian Chartered Accountants* will be based on information supplied to the Canadian Institute by the ten Provincial Institutes of Chartered Accountants, and for that reason there will not be a general mailing to members this year from the Canadian Institute asking for this information.

The information for the geographical listing of firms and sole practitioners, however, will be compiled by the Canadian Institute for all firms and practitioners with the exception of those located in the Province of Quebec. Accordingly, an explanatory letter and return card was mailed on April 22 to every firm and practitioner, with the above-mentioned exception. Where a firm practises in more than one location, a card has been mailed to each of its branches. Any firm or sole practitioner who has not received this material is asked to notify the Canadian Institute at once.

In the News

ROLAND CHAGNON, C.A. (Que.), has been appointed chairman of the new Montreal Metropolitan Corporation. Representing their respective municipalities on the Corporation Council are R. J. P. DAWSON, C.A. (Que.), mayor of the Town of Mount Royal, and J. C. CUSHING, C.A. (Que.), mayor of the City of Westmount.

H. I. Ross, O.B.E., C.A. (Que.), has been appointed deputy chairman of the 1959 Red Feather Campaign for Greater Montreal.

Editorial

TRAINING AND EDUCATION FOR ACCOUNTANTS

TODAY, PERHAPS, more than ever before, chartered accountants are pondering questions of what pre-professional general education should be required, what parts of their training program should be carried out by universities and to what final objectives their professional requirements should be aimed.

During the past few years national conferences have emphasized the role of the chartered accountants' management services and have noted with pride that half the Canadian Institute's qualified members are holding salaried positions in industry and commerce, some in top managerial posts.

It is easy to be carried away with ideas that all chartered accountants are, or should be, capable of top executive positions. Yet most of those who have succeeded in the fields of management or management consulting have done so because of personal attributes that should not necessarily be possessed by all chartered accountants. In most cases accounting skills were the door by which they entered management circles. They succeeded, however, not because they were chartered accountants but because, as chartered accountants, they were in a position to observe or take an active part in numerous real-life management case studies and because they were sufficiently interested and broad-minded to benefit from their experience. Somewhere in the process of their education they had acquired an appetite for learning.

In the eyes of the business community the distinguishing role of the chartered accountant is that of auditor. In the growing complexity of the national economy the role of auditor is becoming no less important and no easier to fulfil. The accounting profession must hold its standards of training for this role, and yet, as it comes to accept growing responsibilities in the fields of management, auditors more than ever before should be broadly-educated men with open minds and some appreciation of the diverse types of ability and judgment required of the executive.

If professional requirements are to be no less stringent than in the past along the lines of auditing skills, where is this further education to be fitted in and how will it be provided? In the long run the universities will come to regard management as a learned profession and will offer more courses in management orientation at both undergraduate and post-graduate levels. Even before this time arrives, accounting in its more philosophical aspects will be recognized as a true liberal arts subject, on a par with mathematics and economics. Many liberal arts students who take a course in accounting as an intellectual exercise will acquire a taste for more. Upon graduation they will become students of the profession, with the added advantage over today's arts graduates of having a head start in the professional courses. In the meantime, some level of university standing may become required pre-professional background training, and the pace of the study program may be intensified in recognition of the uniformly greater maturity of the students.

A thorough course in management training would produce better chartered accountants, both for public practice and for industry, but even elementary training in making management decisions is most fruitful among those who have been directly exposed to the business world and have some understanding of its economic factors and human relationships. It is thus a natural field for postgraduate study, but the demands for different types of postgraduate training for chartered accountants that would arise would be too diverse to justify the profession, as such, taking active steps to enter this field. Besides, the chartered accountant will learn more about management as a postgraduate student among classmates drawn from business at large, with varying experience and backgrounds, than he will in a class of fellow chartered accountants.

The profession must, however, accept the responsibility of indoctrinating young chartered accountants with a greater appreciation of the parts played by all the actors in the great drama of business management. The young comptroller should understand the mutual dependence of the planning, production, sales, finance and personnel departments and the coordinating role of the general manager.

One of the distinguishing features of a truly educated man is his humility — his appreciation of how small his knowledge is in relation to the sum of human knowledge even in his particular field. A prime objective should be to train young chartered accountants to be justifiably confident of their accounting and auditing skills but with a due appreciation of their limitations in other fields — eager and inquisitive to learn more, yet at the same time cautious in evaluating and exercising the management skills towards which their varying experience and interests will lead them.

Long and Short-Range Planning

PIETER BAKKER

THE AIM OF ALL human endeavour is to achieve some benefit or satisfaction over and above the expenditure of effort. This surplus or advantage over expenditure, or income over outgo, is profit. All purposeful human activity can thus be said to be profit motivated. Generally speaking, the success of an endeavour may be judged by the extent to which a profit accrues to the effort.

In the world of business, we can measure the cost and the results of our activities since, for the most part, one is dealing with matters which are or can be expressed in terms of money. Thus a fairly precise measurement of the economic success of a business enterprise can be made.

The basic economic motive behind the existence of business is the maximization of profit, or, to say it more precisely, the *greatest return on the capital invested in the business enterprise.*

This means that a business must continuously strive in two directions: on the one hand, it must try to maximize its income through higher selling prices or a larger turnover, and, on the other hand, it must try to minimize the unit cost of its product or service.

Usually there is a close relationship between the volume of turnover and selling prices: a high price hindering sales expansion and a low price stimulating it. In addition, there is a close connection between business volume and unit cost, a high business volume permitting the use of cost saving production methods. But, in a competitive market, a higher turnover may have an adverse effect on the unit profit in that the price reductions more than offset the cost reductions per unit.

Furthermore, there is a relation between turnover and capital, for rising sales call for more capital unless, by accelerating the business operations, the rate at which capital is turned over can be increased.

The basic objective of a business enterprise is to achieve neither the greatest turnover nor the highest profit per unit, but the highest return on its capital. The problem is to attain that optimum turnover which yields this return.

Since a multitude of factors affect the maximum return on the company's capital a careful examination of each of these factors is required to avoid error and to promote correct decisions. Moreover the interdependence

of most factors emphasizes the need for a thorough and systematic investigation of the factors involved.

The information produced by these investigations leads the company's management to determine what is good for the company. The next logical step for an intelligent management will be the formation of a plan of campaign for the company, setting out in detail the course to be followed to achieve the most desirable results.

Arriving at a Plan of Action

The activity to arrive at a plan of action or a program is generally defined as *planning*. In business enterprises of a more complex nature, the overall plan may consist of a number of detail plans covering the various interdependent activities. These would include sales, production, purchasing, inventories in every phase of the business process, accounts receivable, investments in plant and equipment, etc.

A complete business plan indicates not only the quantities of each of the various operations, such as the number of products to be manufactured, to be held in stock and to be marketed, but also the values to be used and to be created in the business processes during a period of time. This plan is the *budget*.

A budget is simply another name for a program. However, while a plan may be in terms of money, a budget must be so expressed in addition to the quantitative aspects of the activities.

The advantage of a budget system, as compared with conventional planning systems, is that it brings the various detailed plans to a common denominator, which is the value expressed in dollars. This enables the company to assess the relative importance of the various plans, to establish priorities in case of bottlenecks, to coordinate the various detail plans to remove those bottlenecks, and to assess effects of the detail plans on capital requirements on the one hand and on their contribution to the company's profit on the other.

An overall plan, or budget, provides a complete projection of the company's future activities, capital requirements and profit. To enable management to be aware of deviations from the course, this budget should be set up with the same structure as the financial reports which show the actual performance. A simple comparison of the budgeted with the actual figures will show up the deviations; an analysis of these deviations should explain the causes of the deviations and, in many cases, provide the answers as to how to correct them.

Managing an enterprise with the aid of an intelligent plan, or budgetary control system, is frequently called "management by exception". It is the exception to the planned course that requires management's attention.

Because forethought must be substituted for impulse, it is relevant to treat separately some of the vital subjects which arise when a company decides to plan its operations.

Definition of Policy

In the first instance the business should define its *policy* clearly, setting out its objectives, and the way in which, with the resources at hand, it intends to reach its goal. Nothing drains the enthusiasm and energy of responsible and capable staff more than ill-defined policy and indecisive management. Clear leadership can be given only after thorough examin-

ation of available facilities, personnel, equipment and finance. When everyone believes the plans are well-founded, they are willing to cooperate.

To make the planning and budgeting successful, top management must enlist the full cooperation of the divisional and departmental managers who carry a certain amount of responsibility for their sections. The habit of investigation of the facts relevant to the operations under consideration should be encouraged and propositions and decisions based on emotion or wishful thinking discouraged.

The dictation of plans to the lower levels of management should be avoided; psychologically, it is much better to invite the divisional and departmental managers to come forward with their plans. Of course, top management should, as mentioned before, provide a well-defined policy as well as a general outline of those facts which remain generally beyond the scope of the lower management echelons.

The draft plans proposed by the divisions of the company should be received by management with an open mind; alterations considered necessary should be discussed with and explained to the proposers. The final result must still be the proposer's plan; only then will he put his heart in it and feel a responsibility for its proper execution.

Need for Coordination

Before a set of plans, covering all activities, can be considered as final, they have to be coordinated to obtain a harmonious overall plan. In a growing enterprise the number of departments, or the number of officials charged with responsibility, increases as work is divided. If coordination is lacking there may be overlapping and delays in related and consecutive operations.

Consider, for example, a factory with an assembly department making finished products from components manufactured in other departments. The production of components should be controlled so that the right quantities reach the assembly line at just the right time. If production in one component department falls behind schedule, then work in the assembly department is held up, with the following results:

- lower production, leading to reduced profit through smaller turnover and losses in the assembly department,
- the piling-up of components delivered to the assembly department on schedule representing a waste of capital both in financing these idle stocks and in financing storage space for them,
- additional costs for handling and control, with an increased risk of theft and obsolescence.

Thus a delay of production is a two-fold burden: lower profit due to reduced turnover and increased costs; and higher capital requirements.

Aims of Coordination

The primary aim of coordination is the substitution of the certain for the uncertain. For example, cushion stocks of components in the assembly department are maintained in the hope that the dire consequences of a failure of production in a component department can be averted. Production can also be disrupted by factors over which the management has little control, such as, the failure of outside suppliers to keep to promised deliv-

ery dates. To safeguard against late deliveries and poor quality, safety stocks again must be maintained.

Coordination seeks to secure, with the minimum use of capital, that optimum flow of goods and services through the consecutive stages of the productive process which yields the highest return on capital.

Coordination is required during the operations as well as beforehand in the planning stage. After plans have been put into operation, it is almost certain that discrepancies will appear calling for prompt corrective action or modification in the plans. Such variances must be reported and acted upon as soon as they are found so that the basic policy behind the original plan is not seriously affected.

The complete or overall company plan (the master-budget) must have regard to the available productive resources, so that there is neither idle capacity nor such pressure on the facilities that the output would be in jeopardy.

Problems of Coordination

Individual plans may be sound in terms of profitability and the master plan as a whole well-integrated; smooth and rapid production may be assured; nevertheless manufacturing capacity may not be fully utilized. In that case, either the plans must be supplemented or, if economically practicable, the surplus capacity eliminated.

On the other hand, the plans may be beyond the resources of the business in management personnel, in fixed assets, in services obtainable from third parties, or in finance. When plans are over-ambitious, and it is not immediately possible to obtain added capital, personnel, etc. there is a danger that bottlenecks might endanger the overall plan unless one or more projects is abandoned.

Another problem of coordination is that some forms of productive equipment are available only in specific capacities, the smallest of which may be larger than needed.

As mentioned earlier, certain factors cannot be predicted with certainty at the time plans are formulated. The planning and budget procedure should therefore allow for a rapid revision of the plans of the departments concerned, should events make changes unavoidable.

A method that combines a certain amount of rigidity with a great amount of flexibility is the method whereby the first part of the period under review is considered to be "firm", the second part as a "probability" and the third part as an "indication". This approach may be applied to long-range plans as well as to the short-range programs.

Long-Range Plans

The long-range plans, attempting to survey say 10 years future life of the company, are of predominant importance with regard to long-term investment in facilities (land, buildings, equipment and such), for purposes of personnel planning, research, development and financing.

The first year of this planning may be considered as fixed, permitting commitments to be made for prompt execution. The second and perhaps third year of the long-range planning may be put on the drawing board for advanced preparations preceding the actual execution. However, as long as no commitments have been made it is still possible to make alterations without undue cost to the company.

The remaining years are of less consequence as far as operations are concerned, but they are of great importance in forming the proper background for the shorter-run plans.

Each year the long-range plans should be reviewed, by eliminating the year that has just passed, adding one year, and revising the years in between in so far as is considered necessary on the basis of new information that has become available since the previous review.

Short-Range Plans

In turn, in the short-range plans, set up for say one year each time, the first period of 4 months may be qualified as firm, the second as probable and the third as an indication. At the end of each 4-month period, the planning is reviewed for the following 12 months, repeating the procedure. This method of planning is important in a manufacturing enterprise, for ordering manufacturing supplies and hiring of personnel.

If a lead time of 4 months with an approximation of the next 4 months is considered to be too short, nothing prevents the company instituting a planning period, consisting of three 6-month periods, with a review every 6 months for the following 18 months.

The need for a short-range planning, say for one year, is quite evident for most enterprises. The need for a long-range plan, however, is not so widespread as might be expected.

The need for a long-range plan, to a much greater extent than for a short-range plan, depends greatly on the type of business enterprise. The greater the mobility of the income producing assets, the lesser the need for a long-range plan. This is quite clear for a company that is engaged only in purchasing and selling, such as retail stores and wholesalers distributors. It takes only a short while to change the line of merchandise to a different one. If the company concerned is carrying on its business in leased premises, it is even possible to change its place of business without too great expense.

Good short and long-term planning must take into consideration the effect of the business cycle on the company's planned activities.

Results of Mistakes

In the past many organizations have unwittingly followed a mistaken policy by indulging in unreasoned optimism during boom times and unwarranted pessimism in times of depression. These emotional reactions, because they coincide with business cycle changes, make the fluctuations appear more acute than they in fact may be. The reasoning is understandable; as trade increases, industry passes from the under-employment of resources to full capacity production. The replacement of fixed assets, neglected during the depression, is completed, and an unwarranted tendency to expand becomes evident. The trend is not limited to productive capacity only but soon spreads throughout the organization. The strong demand for capital goods pushes up their prices and extends delivery dates. Many an expansion project reaches completion only after the cycle has passed its peak, and is too late to profit from the enlarged demand for consumer goods. Companies that join in this scramble must for years nurse excess capacity purchased in a seller's market. As business contracts and a recession follows, an attempt is made to limit the losses

resulting from over-capacity and high depreciation by economizing whereever possible, e.g. selling excess capacity in a depressed market, staff reduction, etc. These steps are usually insufficient, and it becomes necessary to defer *every* expense not essential to the existence of the enterprise.

By this time it has become plain that the errors made during the boom are the principal causes of the losses incurred in the depression. Mistakes in plans for expansion, poor judgment of economic conditions, the capacity of the market, and the profitability of the enterprise, these and similar factors had set the enterprise on a wrong course.

Business cycles are not the sole result of ignorance in business planning. Government planning and policies have played their part as well, but the fluctuations in business activity which have occurred in the past have certainly been exaggerated by the short-term outlook of many businessmen.

It follows, therefore, that the planning should begin with plans covering several years to provide the basis for the short-term plans and for the conduct of the business in general.

Analyses of Performance

An article on planning and budgeting would be incomplete without mentioning the value of early *analyses* of the actual results.

Accounting provides the actual figures concerning the company's activities, the capital funds used in the operations, and the profits made.

To make effective the analyses of the actual performance as compared to the budgets, the budgets should be made up in accordance with the company's organization; this means by division, department, functions, areas of operations, etc. so that they can always be tied in with personnel responsible for the divisions and departments concerned. *Un budget c'est un monsieur*, to quote the French businessman.

Variations from the budget are to be subjected to thorough analyses to find out their causes. This applies in the first instance to the unfavourable variations, such as lower sales, lower selling prices, lower factory output, higher cost, higher inventories, higher accounts receivable, etc. The analyses of a shortfall in sales in a particular area may show that it was caused by lower-than-expected factory output, a supplier not meeting the delivery schedule, or simply by delays in transportation. The analysis of an unfavourable cost variation may turn out to be due to waiting-time in the factory arising in turn from bad scheduling, or to suppliers lagging behind schedule.

The earlier these facts (exceptions to the plan) are brought to the attention of management, the sooner measures to rectify the situation can be taken. In this manner, the analysis can make important contributions to the company's profitability.

Analysis should not stop at the unfavourable variances. Favourable variances need also to be analyzed. This may point to a weakness in the planning in that, for example, targets set have been too easily attainable by the responsible managers. It is also possible that the favourable variance is due to a change in the conditions under which the company has been operating. Knowledge of this is important; it may enable management to alter the original plans to

take full advantage of the opportunities that have come up.

Budgetary Controls

An effective budgetary control system imposes a heavy and important obligation on the accounting department which must at least:

1. Record all business transactions with third parties, and the creation and usage of values resulting from its productive processes, immediately and at actual and budgeted prices and costs.
2. Follow closely the movement of its assets within the company.
3. Provide information on essential activities, such as sales, production, labour performance and personnel, daily and weekly, both at actual and as planned.
4. Provide complete information monthly on all activities, capital usage, and profits, both at actual and as budgeted, all to be available within 2 or 3 weeks.

To conclude, one more aspect of budgeting in relation to accounting may be mentioned. In companies of more than average size with divisions, regions or departments, headed by managers entrusted with adequate responsibility and commensurate authority to carry out their activities, each manager should consider himself as the entrepreneur of a business. As such he should try to obtain, on the capital invested in the operations of his section, as high a return as possible.

In the same manner as the company's management submits its plans for approval to the owners and periodically reports on its actual performance, the section manager, as discussed earlier, should submit his plans for approval and report on his performance. The section plan, like the overall company plan, should indicate the volume of business, the capital required to obtain this volume as well as the return.

The statements prepared by the accounting department, showing budgeted as well as actual performance, now serve two purposes. In the first place they are the medium through which the section managers account for their stewardship to their superiors; in the second place they provide the means by which those superiors may exercise control.

Style in Writing

Style should be used to brighten the intelligibility of a subject which is obscure. It joins the instructive with the agreeable. It avoids monotony. It uses ornament where ornament will be effective, and is redundant if repetition will make a point.

To say something significant, one must rise above the sheer enumeration of first order facts. Writing is wearisome without contrast and without development of a thought. A white canvas cannot produce an effect of sunshine; the painter must darken it in some places before he can make it look luminous in others. Sir Joshua Reynolds, the great portrait painter of the eighteenth century, said, when someone asked him how he could bear to paint the ugly cocked hats, bonnets and wigs of his time: "They all have light and shadow."

— *The Royal Bank of Canada Monthly Letter*, March 1959

The Organization of an Integrated Procedures Plan

REGINALD D. RICHARDSON

IN THIS AMAZING scientific age when each new discovery steps up the rate of technological advance, it is most difficult to look into the future without a feeling of excitement and perhaps of awe concerning the responsibilities of management.

On every hand the view grows that managing is a profession and the need for development of an orderly science of managing is now recognized throughout the world. This need is hastened by the increasing complexity of social affairs and by the fact that the issue has been joined between the major powers of the world as to the relative efficiency of two divergent ways of life, now for the first time on economic grounds as well as ideological.

It is perhaps more than coincidence then, and certainly timely, to find that business is devoting considerable attention to its administrative affairs and the use of certain handmaidens of order: the business system of procedures and routines; automated business machines of which the electronic computer is the young prince; and the untapped potential of that form of "complete analysis", commonly known as operations research.

Excitement, unfortunately, initially resulted in some overselling. The handmaidens of order presaged the push-button office. The computer became the electronic brain. When, subsequently, it was necessary to correct this overselling some businessmen became overcautious. In the meanwhile, however, many operations have calmly dodged the wilder swings of the pendulum and have pressed on into this new field. The contributions made by these pioneers in office automation marks the beginning of a new era in business history.

While considerable progress has been made and most businesses have adopted some form of office automation, very few have established a fully integrated procedures program. The following comments will have greatest interest for the business which is contemplating such a step.

An integrated procedures program for a business can be defined as the system of paper work routines designed to carry fundamental information from activity to activity throughout the entire sequence of operations with maximum use of the data entered on the initial document prepared, to the following ends:

1. Minimize clerical cost.

2. Minimize opportunity for error through avoidance of recopy operations.
3. Establish common language communication between the functions of the business.
4. Increase the flow of information to assist in decision making.

Where to Assign Responsibility

The first major decision to be made is where in the organization should responsibility be assigned; first, for development of a plan and, after implementation, for coordination and maintenance. There does not seem to be much consistency in the way business organizes its procedures programs, although three different approaches appear to predominate.

In some cases, both the responsibility for development and continuing coordination are assigned to a special organization component reporting to the general manager, although quite often development and implementation of the plan are handled as a project which is discontinued and the responsibility is reassigned once the plan is functioning. The main purpose in placing the activity at second level in the organization is to give it support and emphasis.

The second method makes that function responsible which has the greatest stake in the program by virtue of complexity and volume of paper activity and information requirements. The theory here is that self-interest is the best interest and that work should be done as closely as possible to the point where the greatest detailed knowledge exists.

In the third approach, the accounting function gets the job. Information is not available as to the proportion of each of these approaches to the total, but assignment to the accounting function appears to be most prevalent. The case for this is quite clear and valid. The accounting function usually processes a large share of the total volume of paper and information flow. Even where another function, such as manufacturing, actually handles more paper, most of its routines will impinge at some point on accounting operations, as will those of other functions. The "preservation of assets" responsibility including such activities as the internal audit requires that accounting have a strong voice in all administrative routines. Finally, the modern well-adjusted accounting operation is oriented to performing service or staff work on a teamwork basis for the overall organization.

However responsibility is assigned, it seems highly desirable to emphasize teamwork and to arrange for a full voice in the development and operation of the program from each function of the business. Integration of procedures for a business means more than a mechanical linking together of paper work activities. Integration both depends on and enhances communication, participation and team effort toward common goals by all functions of the business.

Revolution or Evolution

When a business has decided to embark on an integrated procedures program or to modernize an existing set-up by using the latest data processing equipment, such as punched tapes and computers, it must consider carefully whether to proceed on a piecemeal basis by tackling segments of the overall routines one at a time or to exert a single "crash" effort. This decision must be made both with re-

spect to development and implementation.

Much, of course, will depend upon the size and complexity of the operation and whether industrial as well as commercial activities are carried out. However, for the purpose of this discussion it is assumed that the operation is a medium to large size industrial activity which engineers, manufactures and sells its products.

Some excellent cases of both the evolutionary and crash approach exist, and each has proved successful. Following are some of the factors to be considered.

EVOLUTIONARY APPROACH

The field of office automation and integrated data processing is relatively new and changes in technology will occur rather frequently for the next few years. Moving gradually, one application at a time, minimizes the risk of having to scrap considerable work in order to incorporate later developments. Moving gradually also provides a better opportunity to advance in reasonable stages up the scale of automation itself.

An integrated procedures program requires skilled, trained specialists in office procedures. The gradual approach avoids the necessity for building up an organization of procedures personnel greater in number than is required for normal, continuing operations (and more than may be readily available) thus tending to reduce overall cost.

Gradual implementation minimizes the severity of upset to the organization although admittedly prolonging it. It also permits selectivity of those areas having the greatest payoff.

CRASH APPROACH

The advantage of developing and implementing a program as one major effort is that it earns the payoff faster, provided, of course, that the work can be carried out efficiently. While the upset is more severe and the cost higher at the outset the job is cleaned up and out of the way.

A single, major effort also requires that the integrating links between the key segments and functions be developed initially. In other words, the operation is forced to see the completed procedures network circuit in the development stage and before implementation. The evolutionary method does not require this, although it is possible and probably desirable to ensure that this is done to the point of protection against major roadblocks when the circuit is finally closed.

There does not seem to be any clear-cut advantage for either approach. Much will depend upon the availability of trained procedures and data processing personnel who have had some experience in the latest technology in this field. If the business enjoys repetitive manufacture and sale of a large volume of a few products the preference is probably for a crash program. However, the multi-products business which does not enjoy a large volume of any one product and which has a more complex order service, production scheduling, inventory control, and statistical reporting problem will undoubtedly prefer the evolutionary approach.

Procedures Network

The system of paper work routines can be likened to a network of radio stations, with the basic purpose being communication between the various functions of the business. The communication is interactive at local points, but is also progressive to a

terminus. Each local area must select and reject according to its own needs. The language must be common, with a minimum amount of interpretation if the flow is to be free and smooth. The activities of sending and receiving must be closely synchronized.

In a large or medium-large industrial operation, the flow of paper is a most complex process as it moves through the procedures network, from the time the order is received until it is billed and accounted for in the financial statements of the business. A great multiplicity of purposes and activities must be served. Once the business procedures are established there is a tendency to take the paper for granted. Often paper systems are made the butt of jokes and criticisms. However, no manager today questions the essential part they play in all of the vital areas of the business.

Although the procedures network is a veritable maze of individual paper work movements, it is possible to identify six main groups of routines which can be individually procedurized with the end objective in view of integration in a final operation of closing the circuit.

The key groups of activities are as follows:

Production and inventory control
Processing the customer's order
Purchasing — including paying vendors
Paying employees
Shipping, billing and collection
Accounting and statistics.

A few large and complex operations have progressed in all or most of these areas to the point where the circuit has effectively been closed, or can be closed in the near future.

In other cases, work has progressed in one or more of the key areas and although many of these have themselves reached a high degree of automation, they are not yet linked to an overall integrated program and are operating quite independently of the whole. Of course, the operation best prepared for final integration is that which has used common automating techniques and equipment in the separate key areas.

Production and Inventory Control

The most challenging and rewarding area, and the one which must be procedurized for automation before it is possible to complete integration for the business, is production and inventory control. This is the heartland of the network and its arteries run directly to, or indirectly reach, all of the other areas by a system of branch lines.

Production control usually consists of work scheduling, machine loading and progress control of work as it moves through the shop. Inventory control consists mainly of material ordering, storekeeping and stock balance record keeping. While automated techniques for processing the data required to carry out these activities offer large rewards in clerical cost reduction, the gains to be made in improved efficiency are potentially much more important.

The increased flow of more accurate information should lead to the following improvements in manufacturing operations:

1. Reduction of manufacturing cycle times.
2. Reduction of raw, in-process and finished goods inventories.
3. Increased man and machine utilization.

4. Better shipping performance to promised dates.
5. Reduction of overtime work caused by emergencies which arise when control is lost.

Following is an example of a typical punched card data processing application which directly involves engineering and manufacturing but also offers by-product benefits to cost accounting. It also illustrates the opportunities that exist for integration between the functions of the business.

The product is custom built from standard assembly components or building blocks. The end product will be built upon receipt of customer's order.

In the procedure, engineering puts into punched card form standard master data concerning standard components. When an order for an end product is received, engineering specifies the building block components to be used and this variable data is put into punched card form. This data, together with information on the order itself, such as requisition number, quantity, ship date, etc., is run against the master data set-up on components to prepare the manufacturing order and standard cost documents. From the manufacturing order is prepared such shop paper work as job identification cards, move cards, labour tickets, all mechanically provided.

From these punched cards are run easy-to-prepare, low-cost, shop load reports to assist in scheduling and shop floor planning. As the job moves through the shop, feedback data obtained from labour vouchers give vital status and location information, as related to the production schedule. Again the cost is low and the degree of accuracy is higher than manual methods can be expected to provide economically. From the labour card actual labour costs are obtained to be compared against standards. Cost distribution reports are prepared as well as a mechanically produced payroll. In like manner, material feedback cards are produced to run against standard material cost data.

Other Key Areas of Opportunity

Traditionally the payroll has been the favourite area for data processing work. The earliest punch card applications seem to have been those on payroll work and the increasing volume and complexity of payroll record keeping continues to keep this area in the forefront. However, most payroll work does not offer as attractive a payoff on equipment, such as computers, as do some of the other possible applications. Data processing use of computers should generally be confined to the type of operation involving variables.

All of the key areas offer excellent opportunity for modern data processing approach individually or in combination. For instance, putting the customer's order on punched cards or punched tape provides a vehicle for by-product information at many points in the business cycle useful to all levels of management. Examples of this are reports of orders received, unfilled orders inventories, shipment performance analyses, production level projections and so on. Similarly, the purchase order when set up on punched card or tape lends itself to running data on purchase commitments, vendor delivery performance and other useful inventory control information.

Putting the books of accounts on punched cards or tapes along with

operating and statistical reports is an excellent way of piquing the accountant's interest in modern data processing methods. One good example of a computer-handled variable budgetary control system is enough to open the accountant's eyes to the potential which exists.

Facts and Fiction

The immediate purpose of most integrated procedures programs is to provide more timely and more accurate operating information and paper flow at lower cost. Another important benefit devolving more specifically from the integration aspect is the improvement of rapprochement and teamwork between the functions of the business through common language communication. An ultimate goal, perhaps a few years out of reach of most operations, is to so increase the rate of flow, volume and kinds of data that operations research type analyses can become an everyday tool of management.

The first very worthwhile objective does not mean, however, that modern data processing approaches can be economically applied to all and every situation. In fact, attempts to do this must be guarded against with the utmost vigilance because of the inherent tendency to get excited over the new possibilities. The need for balance here is an argument for using the evolutionary approach and looking critically at each proposed application. Incidentally, one very interesting and unexpected result of procedures studies of possible data processing applications has been to find sometimes that the work can be eliminated entirely, which is the best payoff of all.

The benefits to be gained from common language communication must also be regarded with some reserve. An ever-present danger is that the paper work system will become the master rather than the servant. In a few cases, this reversal of the natural relationship has worked to advantage because the paper needs forced certain beneficial operating actions. As an example, pressure may be brought to bear upon a complex product to standardize its components. However, the rigidity of a paper system must not inhibit or restrict free operating action.

Finally, a word on operations research must be mentioned. The term "complete analysis" has been used as a definition. The main purpose of this particular phrase is to remove some of the aura of mystery which unfamiliar terms have created to that dangerous point where negativism has come to interfere with objective thinking.

By "complete analysis" is meant that advanced form of analysis which literally saturates the solution of a problem with basic information which has been subjected to mathematical calculation. This often involves arrangement and rearrangement in every alternative way which it is conceived may provide an answer to the problem, or elicit a pattern leading to an answer.

This form of deep and full analysis has always been recognized as the most desirable for decision-making. However, in many cases, business has had to settle for the use of judgment beyond that which it is reasonable to expect any manager to possess within anything but the broadest parameters, because neither the basic information nor the facilities to process it in the required ways were economically feasible.

Again we have a problem in management balance. We must learn to accept operations research for its true potential, neither dismissing it as a far-fetched, blue-sky approach nor failing to work towards it as a desirable form of advanced analysis.

With the advent of modern data processing equipment and electronic computers, entirely new vistas have been opened up which herald a new era of administrative order. This new era has special significance for the accountant. First, he senses that the integrated procedures approach will eventually lead to sounder decision making. He sees opportunities for a discipline of order similar to that which has been built into the work of his own profession over a period of centuries but has not yet been fully developed in all the facets of industrial operation. Then he knows that he must be informed on all aspects of integrated data processing, automated business machines and the electronic computer to carry out the minimum responsibility of his comptroller function. Finally, and most important, he should be concerned about losing by default his traditional place on the management team as the "minister of order". This new and intensely interesting field is his for the asking. None other is in a better position or better trained to play the leading role.

The Importance of Uniqueness

If we manage people with the basic assumption that individuality and uniqueness is not important, we tread a path that leads us to goals and conclusions that become quite unsatisfactory in terms of management of the firm — to say nothing of life on this planet generally.

This does not assume that we cannot use numbers as a means of easy accomplishment of a task. Frank Gilbreth used to count his twelve children at such crucial times as bathtime, etc., but this did not cause him to lose sight of each one as a unique, individual person with likes, dislikes, strengths, and weaknesses. Such perfectly decent switching back and forth from extensional to intensional definition is a most admirable and necessary situation in management. On the other hand, were operations research techniques to reduce the basic uniqueness of people and their values to number without regard for the basic rightness of maintaining this uniqueness for its own sake, we replace the human values of our culture with a chilling intellectual abstraction.

Even if this de-humanization of management were not important, we would find that in the mathematical methods themselves there are improprieties in reasoning when we become overly mathematical in management.

— "Some Limitations on Operations Research", by George S. Odiorne. *Michigan Business Review,* January 1959

Corporate Taxation in Quebec

JOHN P. KINGHORN

IN SEEKING an understanding of the Corporation Tax Act of Quebec, it will be helpful to remember that it is patterned after the federal Income War Tax Act and the regulations pertaining thereto. Thus a knowledge of that Act will assist in an understanding of the Quebec Act.

When the Provinces of Ontario and Quebec returned in 1947 to the field of direct taxation of corporations and companies, the basis for the determination of income used by the two provinces was similar to that used by the federal authorities under the Income War Tax Act. The allocation of income by Ontario and Quebec was on the basis of sales only, whereas the federal authorities based their allocation on the sales and salaries and wages formula. The authorities in Ontario and Quebec worked in close cooperation, with the result that, despite differences in the definitions of "doing business" (Quebec) and "permanent establishment" (Ontario), agreement could usually be reached on the basis of allocation of income between these provinces so that double taxation could be avoided.

The changes wrought by the Income Tax Act on the Income War Tax Act have not always been given effect to in the Quebec Act, with the result that considerable difference may arise in the amount of income determined under the two Acts. Ontario, on the other hand, has adopted the federal basis for the determination of income.

New Ontario Formula

In 1957 Ontario once again returned to the field of direct taxation of corporations and companies. At this time it was hoped by most taxpayers and their accountants that some agreement would be reached by the various taxing authorities on what constitutes taxable income and its allocation. However, after the lapse of some considerable time, Ontario announced a completely new formula for allocation of income based on shipping point and salaries and wages. This was a new concept of allocation of income and one which would have the effect of greatly increasing Ontario's portion of allocated income. The largest percentage of manufacturing in Canada is concentrated in Ontario, especially the heavy steel and automobile industries, which by the nature of their products have a large amount of direct shipments. It is not likely that, if the other provinces were levying their own income taxes, such a basis would be acceptable to them; certainly it was not acceptable to Quebec. For example, on the basis of shipping point and salaries and wages, it is doubtful if Quebec or any province except Ontario would have derived any income tax from the automobile manufacturing companies despite the large percentage of automobile sales in these provinces. Ontario later amended its Act so that the allocation of income is

now based on the sales and salaries and wages formula, but this basis also allocates a large share of income to the province of manufacture. So far it too is unacceptable to Quebec.

Some of the differences between the Corporation Tax Act, Quebec, the federal Income Tax Act, and the Corporations Tax Act, 1957, Ontario, may be dealt with more specifically.

There are three taxes imposed by the Quebec Act: (a) tax on paid up capital, (b) additional tax on places of business, (c) tax on profits.

The first question to be decided is whether or not a company is taxable in Quebec. The Act states that the taxes imposed shall be paid by all companies, corporations, partnerships, business houses and persons doing business in this province.

"Doing Business"

The definition of "doing business in this province" in the Quebec Act is of much wider scope than that given to "permanent establishment" under the Ontario Act or the regulations pertaining to the federal Income Tax Act. It is this difference which concerns the taxpayer as it can result in double taxation. Some of the problems arise from the inclusion in Quebec's definition of "any room or location where a company invited patronage either through its name being placed in public view on the property, or by the listing of its name in a telephone directory, or by an advertisement in the press giving the name of the company and its address at such a location, and any office, room or location situated in the province, used by a company as its mailing address". It is doubtful if the Minister of National Revenue would agree that a taxpayer had a permanent establishment in Quebec under any of the circumstances quoted above and accordingly would probably maintain that the taxpayer had no taxable income as defined in section 40(2) of the Income Tax Act. It is of interest to note that the Minister lost a recent case before the Appeal Board wherein he contended that an office in the home of a Quebec sales representative of an Ontario company was not a permanent establishment within the meaning of the federal Act.

By granting its abatement for Quebec taxes to every corporation required to pay tax calculated on net income to the Province of Quebec under the Quebec Corporation Tax Act, Ontario has assured a measure of relief to those paying income taxes in both provinces.

Taxes on Paid-up Capital and Places of Business

These taxes vary depending on the type of business carried on by the taxpayer. The various types of business specifically mentioned in the Act include ordinary companies, banks, insurance companies, navigation companies and trust companies. The general practitioner deals mainly with ordinary companies, and it is proposed to limit this article to the application of the Act to such companies, except where the sections are of general application.

The tax on paid-up capital is 1/10%. The tax on places of business in the cities of Quebec and Montreal is \$50 each, and on all other places of business in the province \$25 each, with the exception that where the paid-up capital is less than \$25,000, the tax on places of business is \$25 and \$20, respectively.

The taxes are payable on May 1 in

each year for the 12 months ended April 30, based on the company's audited balance sheet at close of its fiscal period in the calendar year prior to May 1. In other words, a company with a fiscal year ending January 31, 1958 would use the figures shown on its balance sheet at that date to calculate the capital tax due May 1, 1959. New companies and intra-provincial companies becoming taxable for the first time pay only a proportionate amount calculated from the first day of the month in which the taxpayer commenced doing business in the province to April 30. It is possible to file and pay taxes six months after the end of the taxpayer's fiscal year, provided an adjustment is made with respect to the period between the prescribed time, May 1, and the date of filing and payment.

The paid-up capital upon which the tax is payable is the total of capital stock, surplus, tax paid reserves, funded debt and non-current loans or advances less allowances for goodwill, investments in other companies, and the unamortized portion of bond discount and expense.

The Act provides that the Lieutenant-Governor in Council may, upon the Treasurer's recommendation, fix the tax at a sum less than otherwise payable on the capital of any company which

(a) does part only of its business in the province; or
(b) does no business therein other than holding securities.

The Lieutenant-Governor in Council may also make regulations to determine the part of the paid-up capital or revenue which will serve as a basis for computation.

In order to obtain such a reduction in taxes payable, it may be necessary to make a request in writing to the Comptroller of Provincial Revenue. In practice, general regulations are not made for the purpose of determining the reduction of capital tax to be allowed extra-provincial companies which carry on business in the province. There are separate orders-in-council for each of such companies. However, it may be said that, with few exceptions, the proportion of capital tax payable by these companies will be based on the ratio of Quebec sales to total sales. Therefore it is not necessary for taxpayers to wait until they are assessed before making payment of the capital tax.

The places of business for which the place of business tax is payable are clearly shown in section 3 of the Act. As some of the special ones have been mentioned before, no further comment is required here.

Tax on Profits

The tax on profits is at the rate of 9% and is levied on all companies doing business in the province, with the exception of trust companies which only pay capital tax based on gross revenue and place of business tax. The tax is payable on the net revenue of the fiscal year and is payable—

(a) One-half, on the day following the end of the fiscal year of each company subject to such tax, according to the estimate made by such company of its net revenue for the year;

(b) The balance on the 15th day of the third month following the end of each fiscal year, according to the estimate of their net revenue then made or revised by each company subject to such tax.

If the payments made under the above paragraphs (a) and (b) do not

cover the entire amount of the tax exigible, the remainder must be paid not later than the last day of the sixth month which follows the expiration of the fiscal year for which such tax is imposed.

The taxpayer must file with the Provincial Revenue Office such return as the Treasurer may prescribe within six months of the end of its fiscal year. No annual report consolidated so as to show the affairs of several companies shall be accepted.

"Net revenue" has the same meaning as "profits" which include the annual profits made from a trade or other business, interest, rents, royalties and other periodical receipts.

We now come (shades of the Income War Tax Act) to—

Deductions from profits —

Such reasonable amount as the Treasurer may allow for depreciation, depletion, obsolescence or bad debts.

Items not deductible —

(a) Disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purposes of earning revenue;

(b) Any outlay, loss or replacement of capital or any payment on account of capital;

(c) Amounts transferred or credited to a reserve, contingent account or sinking fund, except such amount for bad debts, depreciation, etc., as the Treasurer may allow.

As mentioned before, because of the major changes to the Income War Tax Act when in 1949 it became the Income Tax Act, together with subsequent amendments and changes in the regulations, there can be considerable difference in the taxable income determined under that Act and the Corporation Tax Act.

The following are some of the expenses which receive different treatment under the two Acts and which are treated as follows under the Corporation Tax Act:—

1. *Depreciation*

This is calculated on the straight line method based on the maximum rates allowed by the federal Income Tax Department in 1947, normally one-half of present rates under capital cost allowance. Assets must be kept by classes and each class divided into years of acquisition so that depreciation cannot be claimed in excess of 100% of any year's acquisition.

The asset values appearing on the books at the beginning of the financial period ending in the calendar year 1947, or when the company becomes taxable if subsequent thereto, is the starting base for depreciation purposes provided these values do not exceed cost.

The reserve for depreciation as shown on the books of the company on the abovementioned date is the starting point for building up the continuity of such reserve.

The depreciation allowed is limited to the amount calculated on the basis of the maximum rates and must be put through the books in the year in which it is claimed, with the exception that amounts put through the books in prior years in excess of those allowed for tax purposes can be claimed in years in which the amount put through the books does not amount to that calculated on the maximum basis.

If in a loss year or low profit year the company accrues less than 50% of the normal depreciation, there must be accrued in the case of a loss year the difference between the amount set up and 50%, and in the case of a small

profit year a similar amount less an amount equal to the assessed profit.

Effective in 1958 the ruling requiring the accrual of 50% of normal depreciation in years of loss or small profits has been withdrawn.

2. *Business losses*

There is no provision for the carrying forward or backward of business losses.

3. *Expenses of issuing shares or borrowing money*

These expenses are not allowed.

4. *Reserves*

There are no provisions similar to section 85B of the Income Tax Act, the Quebec Act merely providing for bad debts, depreciation, etc.

Allocation of Income

Another difference lies in the allocation of income. Quebec continues to allocate income on the basis of sales only, which was the basis used by the other provinces before they entered into the tax rental agreement with the federal government. It should also be noted that the allocation of sales under certain circumstances differs from that determined under the Income Tax Act and the Ontario Act. This difference in allocation often results in increased taxation and is of such interest to the taxpayer that it is believed advisable to quote the whole of the ruling issued by the Comptroller of Provincial Revenue in 1953. It determines that part of the revenue "which shall serve as a basis for the tax contemplated by section 6 of the Corporation Tax Act".

1. In the present ruling, the words "The Minister" shall mean the Minister of Finance of the Province of Quebec, and the word "Quebec" shall mean the Province of Quebec;

2. In the case of real estate companies, companies owning and operating grain elevators, and companies whose operations, in the opinion of the Minister, exploit the natural resources of the province, the part of the total net revenue which shall serve as a basis for determining the tax imposed by section 6 of the Corporation Tax Act shall be proportionate to the relationship in value as between the fixed assets, goods and supplies situated in the Province of Quebec and the total fixed assets, goods and supplies shown by the inventories of the company;

3. In the case of every other company referred to in section 6 of the Corporation Tax Act, the part of the total net revenue which shall serve as a basis for determining the tax imposed by the said section shall be proportionate to the relationship in value as between the sales made in Quebec and the total sales of the company, or to the relationship in value as between the gross revenues collected from clients residing in Quebec and the total gross revenues of the company;

4. Sales made by a company, whose principal place of business, in the opinion of the Minister, is situated in Quebec, to purchasers residing in another Province shall be considered as having been made in Quebec unless the company has its own office or branch in such province and is represented by employees residing in that province;

5. All export sales made by a company, having in Quebec its principal place of business in the opinion of the Minister shall, for the purposes of determining the allocation of sales, be considered as sales in Quebec; all revenues coming from operations carried on outside Canada, by a company

whose principal place of business, in the opinion of the Minister, is in Quebec shall, for the purposes of determining the tax based on profits, be considered as gross revenues collected from clients residing in Quebec. However, the sale by a company to a purchaser residing outside Canada of merchandise manufactured by it outside Quebec shall be considered as a sale outside Quebec;

6. Sales by a company, whose principal place of business, in the opinion of the Minister, is outside Quebec, of merchandise manufactured by it in Quebec, to persons residing in another country, shall for the purposes of determining the tax based on profits, be considered as sales made in Quebec;

7. Sales made by a company, whose principal place of business, in the opinion of the Minister, is in Quebec, to the Government of Canada, its agencies, and to companies owned by the Government of Canada, shall also be considered, for the same purpose, as having been made in Quebec. However, the sale by a company to the Government of Canada, its agencies, and to companies owned by the Government of Canada, of merchandise manufactured by it outside Quebec shall be considered as a sale made outside Quebec.

7a. Sales made to the Government of Canada, its agencies, and to companies owned by the Government of Canada, by a company having its principal place of business outside Quebec, shall be considered, for the purpose of calculating the tax based on profits, as sales made in Quebec, if the products sold are manufactured in Quebec;

7b. For the purpose of the application of the present ruling, when the products or merchandise manufactured in the Province of Quebec are sold to one or more companies or persons of other provinces related directly or indirectly to the manufacturing company and re-sold by the company, or person of such other province to clients residing in another country, the Comptroller of Provincial Revenue shall have the right to decide that, for the purpose of the computation of the tax payable by the manufacturing company, these sales shall be attributed to the Province of Quebec;

8. Notwithstanding anything in the Corporation Tax Act to the contrary, the provisions of this Order-in-Council shall affect the allocation of sales and revenues for the purpose of determining the part of gross revenue and net revenue which will serve as a basis for the computation of the tax payable by companies in respect of profits; the whole affecting sales made or revenues received from January 1, 1952.

With regard to paragraph 3 above, the Act deems all sales to purchasers residing in Quebec as sales made in Quebec if the company has an office or is doing business in Quebec.

It is impossible in this short paper to deal with all the aspects of the Quebec Act, especially all the differences between the Quebec Act and the federal and Ontario Acts. For this reason the Quebec Act and its rulings will bear study because of the difficulties they raise. Even though the federal Act accords to Quebec corporations a credit on their taxable income, it is misleading to think that double taxation is in all cases a thing of the past. Until there is one definition of income earned in the province that is acceptable to all authorities, the problems will remain.

The Accountant's Part in Labour-Management Relations

FRANK A. STANLEY

THE LABOUR contract is the most important and far reaching contract that a large unionized industry is called on to negotiate. Frequently it is consummated after less constructive study by management than a sales contract with a single customer; the latter affects the profitability of a single sale, the former the profitability of the whole enterprise.

The accountant, or the controller, has the duty to see that management is informed on all aspects of the costs of the proposed contracts. He is probably best qualified to obtain and collate the information necessary for formulating management's policy: area rates of pay, rates of pay and fringes in the industry, and the cost of these fringes. He should cost each proposal of the union and, indeed, each proposal of the company. He should have views on the probable effects of these proposed contracts on the earnings of the company.

The public accountant is seldom exposed to the rigours of the bargaining table on behalf of his client. The accountant in industry frequently finds that during the bargaining "season" a substantial portion of his whole time is consumed in preparing for negotiations and in attendance at the negotiations as a member of the management group. While this time will be hard to find in a schedule already well filled, it should be recognized that these negotiations are of paramount importance to the company. The sad part is that the bargaining season is likely to spread over many months and to include countless day long, or night long, sessions in which progress toward a solution will be entirely absent. Collective bargaining has become a science and is practised skilfully, on a full time basis, by the representatives of the large national and international labour unions; management comes to the bargaining table from time to time only, and must be aggressive in order to meet labour on equal terms.

Company Negotiating Team

This team should include at least the following: the personnel manager, the operations manager (or his deputy), the controller or accountant. The team will be much more effective if it includes a representative of top management, who might be one of the individuals already named; it is important that the team includes this policymaker, authorized to make decisions during negotiations. A decision

made firmly during negotiations frequently prevents a small issue from becoming a large one.

It may be desirable to have experts in labour law or industrial relations in attendance, but the bargaining should be carried on by the company representatives. In many of the larger companies, management has lost contact with employees and now meets them face to face only when a collective agreement is being negotiated or renewed; it must not abdicate its responsibility of providing leadership for the employees to the professional union organizers. Some, at least, of the success of unions in the last 30 years can be attributed to management's indifference to the problems of the employee in the very large organization.

The Accountant's Part

The accountant should present for the management team the statistics, wage comparisons, and the costs of benefits which are under consideration. He ought to make his presentations clearly and simply and be prepared to explain how they have been developed. The accountant will be most useful to his team if his principal contribution is limited to the debates on purely financial matters and those contract clauses the cost of which can be determined or estimated. The operations manager or the personnel manager will do the best job of resisting the attempt to introduce work restriction clauses, "feather-bedding", and crippling seniority restrictions. It is true that a bad set of seniority provisions which make economic and efficient operation impossible will impose terrific costs on the industry; it is, however, almost impossible to estimate these additional costs. The arguments arising in these areas tend to be ideological and not particularly financial, at least on the part of labour. By restricting his participation here, the accountant will make his presentation of costs and other statistics with more effect.

Pricing the Package

Labour will have made its demands in writing and the accountant will have established the price of labour's demands. There are several methods of expressing the cost to the company, including percentage increase in payroll and annual cost; but the simplest, and generally accepted as the best, is as a cents per hour increase.

The increase demanded in the hourly rate of pay obviously presents no problem in pricing the package. The so-called fringes, which labour seems to assume cost the employer nothing, or very little, frequently are the major part of the package. Some of these fringe benefits can be costed accurately enough in a simple manner. In a plant where the average rate is $1.80 per hour, with an 8-hour day, a 10-minute coffee break can be said to cost 3.84 cents per hour. In the same plant a ninth statutory holiday will cost about .74 cents per hour. The company's costs in respect of group life insurance, and hospital insurance, are readily established on a cents per standard hour basis. Supplementary unemployment benefits are met from a fund which is created by company contributions on a cents per standard hour basis. Pensions have now been achieved by many of the larger unions and this benefit, while putting nothing in the pay packet of the employee, is one of the most expensive fringes for the company; pensions paid for entirely by the employer can cost up to 15 cents per hour or more.

There is, however, a steadily increasing number of benefits being demanded, the cost of which the accountant will have to estimate in the first instance. Some companies have now granted time off with pay for a death in the immediate family of the employee. When this fringe is first demanded, the accountant will not have the vital statistics in respect of the employees' families in past years. He should develop his estimate of the cost on a basis which he can successfully defend, so that the probable cost of that particular fringe will not be in serious dispute. The argument will be limited to whether the fringe is to be included in or excluded from the package. If this benefit is granted, its actual cost will be developed in the company's accounts for use at the next renewal of contract negotiations. Another fringe being allowed occasionally, the cost of which, although always small, is difficult to forecast accurately, is "make-up" pay while the employee is on jury duty. Unions include such a request in their demand principally for bargaining strength: at the appropriate moment, in exchange for something that is really wanted, they will offer to vacate this demand. Probably the principal cost of such a fringe to the employer is the cost of administering adequately the few payments that are called up.

The price of paid vacations becomes complicated when such vacations are extended to three weeks with ten years service, and four weeks after longer service. In our example plant, a two week vacation is worth 7.6 cents approximately. This figure does not take into account that some of the hours in the year will not attract this full vacation cost, being hours put in by new employees with insufficient service for full vacation entitlement. When the union demands extension of the vacation privilege, the accountant must make a calculation of the additional cost to the company based on a study of the length of service of all employees. In a company that has had a large staff only in the last seven or eight years, three weeks vacation after ten years will obviously cost very little in the next year or two. The cost in these circumstances should be developed over a longer period when the service distribution will be more typical. A new company can grant very generous vacations to long service employees at no cost whatever for years; this type of concession should be vigorously resisted.

The value to the employee (or the cost to the company) of shift differentials, overtime bonuses, Sunday, Saturday or holiday pay rates is not easily expressed as a number of cents per standard hour. The accountant will be aware precisely of the number of second shift hours that have been worked, as well as hours worked on the premium days, in past periods. From this experience he can estimate the cost of changes in the rates for these hours but at best this can only be an estimate because the extent of these off-standard hours in the future is usually an unknown. The accountant, and the management team, should be guided in this area by the statistics collected by the accountant as to what is general in the district and the particular industry. Management should resist yielding to a demand for an unrealistic premium rate simply because it does not expect to have many such premium hours. This can come home to roost directly if it becomes expedient to incur premium rates, and indirectly such a concession will have an effect

on the rates prevailing in the area and the industry that will be a factor, possibly, in the next renewal of negotiations.

Labour will ask every time that the period between start of work and attainment of top rate in the category be reduced. With a fairly static work force and low turnover this will cost little as nearly all will be at top rate already. In a growing work force, or, more seriously, with a high turnover, shortening the period between probation and mid rate, and between mid rate and top rate, will be an important cost to the company. The cost, expressed as cents per hour of all hours worked, will be difficult to forecast as it depends on future labour turnover as well as probable size of the work force during the contract period.

The accountant or the top management representative on the team should lead the resistance to labour's desires to interfere in management's prerogatives. Unions have attempted to limit the company's right to place work in the hands of sub-contractors. The accounting executive should be best qualified to explain why management should never accept this; the explanation will properly include the point that in the long run what labour is asking could prove fatal to labour itself in the prime contractor's plant. Unions also attempt to restrict the employment of outside contractors in the plant to make work for maintenance departments, etc. Management must insist on its right to be efficient so that it may survive and thus continue to offer employment. Labour has asked for mutual agreement on the method of dealing with work reductions. Sometimes labour favours a reduction in the work week and maintenance of jobs for as many as possible, as long as possible. At other times labour has insisted that full work schedules be maintained and that lay-offs take place. The accountant should insist on management's right to run the business, and can do so while always identifying intelligent management with labour's true interests.

Financial Statements

The financial statement, other than the published statement of a public company, will not be available to labour unless labour has been given access to this information by contract in connection with some profit-sharing agreement. Any such agreement should define precisely the method of determining the profit to be shared, and the information to be made available in connection with this determination. The accountant of the company should develop this information as accurately as if he were acting independently; indeed it may be that this information is for verification by public accountants.

Labour frequently demands more money for little reason other than the company's apparent ability to pay more. The company's profits should not be allowed to become an issue. Labour should not be asked to accept a substandard rate of pay and thus subsidize inefficient management. On the other hand, labour should not get unreasonably high wages simply because management is very efficient and is developing high profits. Labour cannot share losses and should not share only the profits.

Costing for Management

The accountant must keep management informed as to the cost to the company of all proposals as they

are developed in the labour-management negotiations. Whereas in these negotiations the discussions will be of a cents per hour increase, management will be interested in the cost of a productive hour in the plant under the new proposals. Only a part of the cents per hour increase being negotiated will be in the pay envelopes; an astonishing part will find its way into the overheads. In a recent survey by the United States Chamber of Commerce of about 1,000 companies, fringe benefits ranged up to 50% of payroll and averaged 20.3% of payroll. The average cost of the fringes in this group of companies was 39.2 cents per hour.

The accountant must forecast the labour cost and the overhead rates so that product costs can be estimated, and selling prices determined. All of this needs to be done as negotiations are proceeding so that management's decisions in respect of the labour contract will be made with full knowledge of its estimated effect on the company's trading.

Negotiations

The management team should enter the bargaining arena with the knowledge of a definite limit beyond which the company will not go, even to prevent stoppage of production. This information must be jealously guarded, and the initial offer by management should be only a small part of the maximum adjustment authorized by top management. Organized unions usually start by demanding exorbitant increases in rates of pay, pensions, insurance, overtime bonuses, and everything else in or out of the existing contract. During negotiations the union side of the table will appear to be making concessions as they modify their original demands which were never realistic.

Management must keep its first offer low so that something can be given in exchange for adjustments on labour's part as negotiations proceed. A small part of the package originally authorized must be kept under the table until the very last moment. It is always hoped that agreement will be reached before the limit is offered, but a deadlock should be permitted to occur before the last cent or two is disclosed. After the deadlock has been reached and a strike seems imminent, if management is able to offer something, a settlement can frequently be achieved. At this juncture the union bargaining committee needs some concession from management in order to obtain ratification by the union membership. Management should be content with continuous production within its original target.

Conclusion

It is regrettable that such distances have developed between managements and the employees covered by union contracts. The faults are not all on one side. It frequently appears that the third party to the negotiations, the union headquarters, is a divisive element. Jurisdictional differences, so-called union policy, frequently keep labour and management apart longer than seems necessary or profitable for labour or management, or in the public interest. There have been so many instances of intimidation that one finds it hard to believe, sometimes, that the result of a union-conducted vote represents the true wishes of the workers. The Departments of Labour should offer to provide facilities for secret voting under Department supervision to the unions of each province. Votes con-

ducted under genuinely independent auspices should command the respect of the community, which is not always the case today. The offer to supervise voting should include elections, as well as strike votes, and the unions should be free to use the services or not; public opinion should be the only influence on the unions.

Very large amounts of money are collected in the name of organized labour. The press has reported in recent months very disturbing allegations concerning the application of some of these funds by unions in the United States. It is hoped that these conditions are not present in the Canadian scene. Accountants ought to be in the lead in suggesting that unions be required to demonstrate financial integrity, for the protection of union members as well as the community. Responsible unions will favour proper accounting to members, and indeed, the nation, in order to establish organized labour as a more respected partner in the nation's industry.

Beginnings of Paper Currency

A close link existed at the close of the 17th century between England, under King William III, and the prosperous Republic of Holland, whose trading prowess and whose Bank of Amsterdam had stirred the imagination of many a man of business. In 1694, following the Dutch example, William Paterson and his associates founded the Bank of England, and from that point onwards, though much reliance was still placed on the metallic currency, paper money came increasingly into use. Particularly popular with the public were the Bank's first 5-pound and 10-pound notes.

As time went on many of the disadvantages of paper were realized. That it encouraged the forger was soon apparent, for one audacious swindler actually printed counterfeit Bank of England notes to the value of 200,000 pounds before being discovered. The inflationary dangers, too, were demonstrated at the time of the Napoleonic wars which, in the most literal sense were fought (and by both sides) on paper! Nevertheless, paper notes, in various denominations, passed into circulation in an endless flood. Gradually they became legal tender, not only in England, but in every civilized country in the world, intrinsically valueless, but a recognized "store of value" and medium of exchange.

— R. Robert, "The Many Forms of Money",
The South African Accountant, September, 1958.

Depreciation: Current Theory and Practice

JOHN R. E. PARKER

DEPRECIATION means different things to different people. No small part of the resulting disagreement among various authorities can be traced directly to differences in their notions of depreciation. As a concept, depreciation may be broadened or narrowed to support almost any reasonable theory by merely constructing a definition which describes the idea held by the particular writer.

At the outset it is desirable to draw a distinction between the physical or economic fact of depreciation and the subsequent manner in which this fact is treated in the accounting records. The existence of depreciation is not in dispute; it is almost universally accepted that a physical asset does, in the process of use, wear out. At this point it seems of little significance that the view of accountants has been considerably broadened, in that they no longer restrict depreciation to physical deterioration. Currently, depreciation is also related to various other economic factors, such as plant expansion and technological change, which cause assets to lose usefulness and hence value through inadequacy and obsolescence. In drawing attention to the certainty or reality of depreciation it is virtually impossible to improve upon the often quoted passage from the late Henry Rand Hatfield: "All machinery is on an irresistible march to the junk heap, and its progress, while it may be delayed, cannot be prevented by repairs."[1]

On the basis of the above distinction, the economic fact of depreciation can be defined in such terms as "lost usefulness"; "expired utility"; or, as in the words of George O. May, to "describe broadly the cost or expense due to all the factors which cause ultimate retirement of property insofar as that cost is not included in current maintenance."[2] Furthermore, the concept of depreciation has wide economic implications quite apart from any accounting considerations, or even in the complete absence of any treatment whatsoever in the accounting records. However, the reporting of earnings without a deduction for depreciation would certainly be a very serious defect.

Concepts of Depreciation

From the viewpoint of common usage it is the value concept that en-

[1] Henry Rand Hatfield, "Accounting", New York: D. Appleton and Co., 1927, p. 130.

[2] George O. May, "Financial Accounting", New York: Macmillan Co., 1946, p. 118.

joys the widest support. The term "depreciation" is derived from the Latin *de* meaning down, and *pretium* meaning price, and in popular everyday usage simply means a decline in value. There is in accounting literature, however, a strong trend away from this concept because it is so dependent upon the interpretation of the word "value" that, as a concept, it must be regarded as vague and impractical. Nevertheless this concept continues to enjoy wide popularity.

The accounting concept of depreciation may be regarded as representative of the "official" position of the profession, and of the practice of depreciation accounting as we know it today. The American Institute of Certified Public Accountants has described depreciation accounting as:

> . . . a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any) over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation.[3]

The accounting treatment of depreciation is analogous to the technique employed in handling a prepaid expense. Both are items for which either payment has been made, or an obligation has been incurred, in advance of the anticipated benefit. It is the accountant's task to allocate this cost over the periods which are expected to enjoy the benefit. The acceptance of the accountant's concept carries with it consent to certain very important implications, namely: (1) that the depreciation charge, with rare exceptions, must be based upon historical cost, and (2) that the book value of fixed assets, as shown on the balance sheet, has no necessary relationship with any sort of economic value.

There appears to be very little question with respect to the practice of depreciation accounting; it almost invariably follows the accounting concept, as described. It is interesting to note, however, that the theories held deviate widely from the accepted practice. Basically, the fundamental distinction between the various concepts centres around the depreciation base. Many feel very strongly that this base should be something other than historical cost. Replacement cost has often been suggested, also cost in terms of current purchasing power. These suggestions lead directly to the various capacity concepts of depreciation that are so widely held by businessmen and economists as well as many accountants. In brief, these concepts mean that enough funds should be withheld from income to insure that the company will be able to maintain its present level of productive or service capacity or, alternatively, be able to maintain its relative position in the industry.

Depreciation and the Replacement of Fixed Assets

During periods of inflation the depreciation controversy generally becomes more apparent. The difficulty would seem to lie in the failure or inability to report in an acceptable manner the utilization of fixed assets so as to take full cognizance of price level changes. The fluctuating dollar creates a problem, in that profits recorded in extreme economic times (inflationary or deflationary) are overstated or understated as to true economic values. This is due, in part at least,

[3] American Institute of Certified Public Accountants, *Accounting Terminology Bulletins*, Number 1, *Review and Resume*. New York: 1953, p. 25.

to the fact that depreciation is based on a dollar that has a fluctuating value. As pointed out by Ralph Coughenour Jones in his recent study "Effects of Price Level Changes on Business Income, Capital and Taxes":

> the ceiling which limits total depreciation on any asset to its historical-dollar cost is the one thing which prevents the adoption of effective measures for recording and reporting the effects of inflation on real capital exhaustion costs.[4]

Many businessmen consider replacement to be a fundamental purpose of depreciation. There is perhaps some justification for this belief; however, in actual fact, replacement and depreciation are entirely independent phenomena connected only by the obvious fact that were it not for depreciation, replacement would not be necessary. To the accountant the replacement of fixed assets is a financial problem, admittedly a very serious one. Linking this problem with depreciation is nothing more than a confusion of financial policy with accounting procedure. This conclusion is based upon the view of the accounting profession that depreciation is limited to the rational and systematic amortization of capital costs. However, if we accept as the purpose of depreciation the recovery of costs from customers, then there is a close relationship between depreciation and replacement policies.

One of the main reasons why so many people think of depreciation in terms of replacement can be found in the answer to the question, "Does depreciation provide funds?" It is true that fixed assets do not require an expenditure of funds, other than for repairs and maintenance, in the periods of use, but only in the periods when acquired and/or paid for. The depreciation charge, therefore, is not accompanied by a related expenditure of funds. Whether or not it will provide funds depends upon the success or failure of operations during the period. To the company that enjoys profitable operations funds received during the period will exceed net operating profits by an amount at least equal to the depreciation charged as an expense of the period. This excess of funds simply becomes an indistinguishable part of the company's working capital and may be used for any of the numerous purposes for which working capital is used in a business. Many authorities, in suggesting that depreciation provides funds, fail to state the basic premise of profitable operations. Depreciation charged in a loss year is incapable of generating an equivalent amount of funds except in the situation where the depreciation charged exceeds the net operating loss. However, depreciation, like any other cost, can only be recovered through sales. Although the provision of funds is not the purpose of the depreciation charge, in actual practice, it most certainly is the result.

To the accountant, however, depreciation is merely an expense for which the cash expenditure, or at least the obligation, was incurred in some prior period. Future replacements will be subject to a new series of depreciation charges. As a consequence, there is no real connection between replacement provisions and depreciation. There is certainly an indirect connection; however, this is the result of the common practice of passing on the depreciation cost to the customer.

[4] Ralph Coughenour Jones, "Effects of Price Level Changes on Business Income, Capital and Taxes", Columbus: American Accounting Association, 1956, p. 152.

Disregarding for a moment the vital tax angle, the replacement controversy really comes down to whether the additional charge, which will be necessary during inflationary periods, should be deducted before or after arriving at net profit. There is certainly no objection to an appropriation of surplus to cover the added cost of replacement. The significance of such a charge is that it tends to prevent the dissipation of retained earnings by the payment of excessive dividends.

Accelerated Depreciation

During recent years renewed interest has been shown in that group of depreciation methods which permit a larger write-off during the earlier years of asset life than would be obtainable using the traditional straight-line method. The accounting profession uses the term accelerated depreciation to describe almost any method which accelerates or speeds up the amortization of the historical cost of a depreciable asset, either by shortening the period of write-off or by taking larger amounts during the early years of normal service life. Furthermore, there has been a widespread trend towards the adoption of accelerated methods of depreciation within the framework of income tax law. In Canada the use of the declining balance technique for income tax purposes has been permitted since 1949. The United States, England, Sweden, Denmark, the Netherlands and many other countries have also permitted some form of acceleration of depreciation charges for income tax purposes.

Accelerated depreciation escapes the criticism which has been made of various other plans in that it, like the traditional straight-line method, is based upon historical cost. Rationalization of the high initial depreciation charges is made on the grounds that during a period of steadily rising prices, accounting profits tend to be overstated. Basically, accelerated depreciation is not designed to compensate for the effects of price level changes, even though in effect it may do so to a limited extent. However, the desire to minimize profits and hence income tax payments, and to hold back earnings to cover increased replacement costs, may leave wide latitude for the abuse of an accelerated depreciation method. Excessive depreciation is contrary to the fundamental purposes of accounting, for its effect is to conceal the amount of profits. In addition, it is known to create what is termed a "secret reserve". Inasmuch as depreciation, at least in the accounting sense, deals with cost and not with value, it follows that the accelerated methods will tend to create an even more serious understatement of the book value of depreciable assets.

The traditional premise upon which accelerated depreciation methods seek their justification stems from a consideration of the total cost incurred while utilizing a depreciable fixed asset. This total cost incurred will include the annual depreciation charge plus the expenditures for repairs and maintenance. It is reasonable to assume that repairs will increase as the asset approaches the end of its useful life. Inasmuch as accelerated depreciation methods result in a larger charge during the early years, the combined total of depreciation, maintenance and repairs should result in a reasonably uniform charge throughout the useful life of the asset. However, it is perhaps debatable whether such a degree of uniformity is attainable

and, if so, necessarily desirable in accounting records. The premise of this theory, that repairs will increase in an amount equal to the decrease in the depreciation charges, is of questionable validity.

An additional argument that attempts to justify accelerated depreciation is the realization that obsolescence may actually be a more important consideration than asset life in determining depreciation policy. The rapid technological advancements of recent years add considerable strength to this viewpoint.

Income Tax Considerations

Many of the strongest arguments in support of accelerated depreciation are based upon income tax considerations. Regardless of the government's purpose in allowing the use of declining balance depreciation for income tax purposes, in the majority of cases the result has been tax relief. If it is assumed that the present tax law will remain in effect, and that the company will continue as a going concern, accelerated depreciation will yield a definite tax advantage. With a single asset, tax benefits in the earlier years are followed by correspondingly higher tax payments as annual depreciation charges decline. The effect is not the same, however, when a growth factor is introduced, inasmuch as tax savings accumulated during the earlier years tend to become permanent, so long as the net amount of depreciable assets does not decline. Under such circumstances, excluding the possibility of liquidation, the initial savings are never repaid. Furthermore, the shift in timing accomplished by the use of the declining balance technique takes on added importance because of the time value of money. A dollar on hand is certainly more valuable than a dollar that will not be received until some future date. The amount involved in this particular case is the tax saving or deferment.

While the Canadian system of declining balance depreciation for income tax purposes was devised for administrative convenience, one of its most significant effects has been the capital investment incentive it has provided. The period subsequent to its enactment has been characterized by a phenomenal rate of economic growth. It is extremely difficult, however, to separate the effect of declining balance depreciation from the effects of various other economic factors. The current price inflation, for example, would require an increasing annual dollar expenditure to merely maintain a constant stream in terms of real investment. Capital generally will be provided for the truly worthwhile project. If the project is not worthwhile, tax advantages alone will not launch it. Regardless of the incentive value of the declining balance provisions, they have effectively removed what was previously a deterrent to capital investment in depreciable assets.

Conclusion

In the area of depreciation accounting there is still need for considerable research. Even the most cursory examination of accounting literature clearly indicates that the subject of depreciation is one of the most controversial topics in accounting theory. The basic problem is that the depreciation charge is being asked to serve too many purposes, not all of which are compatible one with the other. Businessmen tend to regard depreciation as an inadequate source of re-

placement funds. They also look upon depreciation as a device for minimizing income taxes, especially in the short run. To the accountant, depreciation represents an allocation of cost essential to the measurement of profits. In recent years there has been evidence of a tendency on the part of government taxation authorities to regard depreciation as a device for influencing business activities. At times these various objectives ascribed to depreciation are bound to clash. It is inevitable that some will be destined to failure.

Steps in Judgment Formation

The procedure of judgment formation in auditing must of necessity commence with the individual propositions which in the aggregate make up the financial statements. Only after these have been reviewed and judged is an auditor in position to make his important, overall judgment. Four closely related but distinct steps are necessary to prove or test any individual proposition. They are (1) recognition of the proposition, (2) collection of pertinent evidence, (3) evaluation of the evidence and (4) formation of an opinion as to the conformity of the proposition with events as the auditor understands them.

The audit program plays a major role in recognizing individual propositions and providing for the collection of pertinent evidence. Auditors do not follow the practice of making a detailed list of the many propositions before them in an examination and then checking them off one by one as they obtain evidence. They are accustomed to thinking of propositions and dealing with them in groups. To illustrate, the apparently simple assertion "Trade Accounts Payable — $17,000" involves important subsidiary propositions with respect to classification, cut-off, and correlation with inventory and purchases amounts. Some of these may be given individual treatment in the audit program; others may be cared for almost automatically in connection with tests of other propositions. This does not bother an alert, experienced, competent practitioner; it could, of course, prove a real stumbling block to an inexperienced or improperly trained assistant.

The ability to recognize the component propositions in financial statement assertions, to evaluate their significance, and to select appropriate procedures to obtain pertinent evidence on each is not a capacity possessed equally by all. Without a carefully planned program to guide him, a novice might well overlook less obvious but none the less significant propositions. Because of the large number of varying propositions included within a set of financial statements, even an experienced auditor may fail to identify and consider them all unless he makes a point of carefully reviewing the adequacy of the audit program in these terms.

— R. K. Mautz, "Evidence, Judgment and the Auditor's Opinion", *The Journal of Accountancy*, April 1959.

Edited by W. BARRY COUTTS, C.A.

Accounting Research

Auditor's Responsibility for the Validity of the Inventory Figure

Gertrude Mulcahy, C.A.

C.I.C.A. Research Associate

As explained in Bulletin No. 15, the Committee on Accounting and Auditing Research of the Canadian Institute of Chartered Accountants has generally limited its bulletins on auditing to matters of professional standards and the forms of auditors' reports, in which a measure of uniformity is desirable. Auditing procedures are considered to be appropriate subjects for bulletins only when the exceptional nature of a problem calls for formal recognition of an acceptable practice. To date, the committee has issued two bulletins on matters falling in this latter category: Bulletin No. 7 on the procedures relating to inventories, released in October 1951, and Bulletin No. 15 on the procedure of confirmation of accounts receivable, released in April 1958.

The committee recognizes that, for the bulletins to effectively accomplish their desired purpose, they must be reviewed periodically to make sure that they are up to date and reflect current practices and trends. Recent research into the procedures generally followed by practising members of the Institute with respect to inventories has indicated that Bulletin No. 7 is somewhat behind current practice in the area of auditing procedures relating specifically to the physical existence and condition of the inventories.

In Bulletin No. 7, the committee stated that: "Except in the case of companies filing with the Securities and Exchange Commission in the United States, it cannot be said that generally accepted auditing procedures in Canada at the present time require attendance by the auditor at the physical stocktaking. However, there is an increasing tendency on the part of auditors in Canada to adopt this practice because of its usefulness in evaluating the system of internal control."

In the spring of 1957, the C.I.C.A. Research Committee conducted a survey of opinions and practices of two hundred practising members, which was designed to provide information as to whether or not the trend, indicated in 1951, had reached the proportions of general acceptance. From the answers received to the questionnaire, it was evident that a substantial proportion of the group contacted felt that observation of the client's stocktaking should be standard practice and that, in fact, this practice had already been adopted extensively.

Subsequent discussions at Provincial Institutes' annual meetings and the 1958 annual conference of the C.I.C.A. disclosed general agreement in the profession that attendance at stocktaking should be regarded as standard practice and that there was a need for a pronouncement to this effect by the Committee on Accounting and Auditing Research. These

discussions and the committee discussions which followed brought out the fact that a lack of understanding of the objectives and techniques of this practice was probably one of the main factors which had impeded the progress of its acceptance. The committee felt that a greater understanding, on the part of practising members and their clients, would extend the recognition of this procedure as the most useful and conclusive means by which the auditor can satisfy himself as to physical existence and condition of the inventory. Therefore, in recommending the adoption of attendance at stocktaking as standard auditing practice, the committee paid particular attention to the need for adequate explanations of both of these points.

The committee felt that, rather than issue a separate bulletin on attendance at physical stocktaking, it would be desirable to incorporate all recommendations relating to auditors' responsibilities with respect to inventories into one bulletin. Bulletin No. 16 is, therefore, a revision of Bulletin No. 7, confirming the practices approved in the earlier bulletin and extending the committee's formal recognition to include attendance at physical stocktaking as standard auditing practice where stock-in-trade is a significant item in the financial position.

The committee, of course, recognizes differences in methods and scope of carrying out this procedure. It also acknowledges that there are circumstances in which attendance at stocktaking is not practical. However, in such cases, the auditor must decide whether or not he can be reasonably satisfied by the use of other procedures, for the bulletin states that if the auditor has not satisfied himself as to the physical existence of the inventory he should qualify his report.

The bulletin carries the customary warning that it should not be considered of retroactive effect or applicable to items of little or no significance.

C.I.C.A. Research Bulletin No. 16

May 1959

(*Superseding Bulletin No. 7*)

THE AUDITOR'S RESPONSIBILITY FOR THE VALIDITY OF THE INVENTORY FIGURE

1. In 1951, the Committee on Accounting and Auditing Research issued Bulletin No. 7, which gave formal recognition to the generally accepted auditing procedures in Canada at that time in respect of inventories. The committee is satisfied that auditing procedures have developed considerably in the intervening years and that, as a result, Bulletin No. 7 does not reflect current generally accepted practices.

2. The present bulletin again emphasizes the auditor's responsibility for the validity of the inventory figure and extends the committee's formal recognition of acceptable practices to include auditing procedures relating to the physical existence of the inventory. The committee believes, also, that there is a need to clarify the status of the procedure of attendance at physical stocktaking.

Auditor's Responsibility

3. It is generally recognized that the inclusion in the balance sheet of the words "as determined and certified by management" or words of similar import with reference to the inventory does not relieve the auditor of responsibility. In the committee's opinion, such phraseology tends to be misleading and its use should be avoided.

4. Financial statements are the representations of management even though, in some instances, the statements may have been prepared by the auditors. The responsibility of the auditor is to report upon the statements as prepared, basing his opinion upon his independent examination. It follows that, while the inventory of stock-in-trade as set out in the financial statements is primarily the responsibility of the management, the auditor cannot ignore his own responsibility to satisfy himself as to the validity of the client's representations as to inventories and of the inventory records. In brief, while the auditor does not take, determine or supervise the inventory, he must be reasonably satisfied as to the physical existence and condition of the goods, the ownership, the pricing and the arithmetical accuracy of the calculations.

Procedures in Canada

5. In 1951, the committee pointed out that generally accepted auditing procedures in respect of inventories include: (1) a review of the methods followed in the determination of quantities and values, (2) the testing of the inventory quantities with confirmatory evidence such as rough count sheets, perpetual stock records, etc., and (3) the testing of the pricing of the inventory and its clerical accuracy. The committee confirms its approval of these procedures as acceptable practices and emphasizes that such tests should be sufficient in scope to satisfy the auditor that the stated basis is being followed and to determine whether or not the basis is consistent with that of the previous year.

6. With the increasing recognition of the auditor's responsibility for the validity of the inventory figure, advances have been made in procedures to substantiate the physical existence and condition of the inventory. Inspection of stock-in-trade has become generally recognized as the most useful and conclusive procedure by which the auditor can satisfy himself in this respect.

7. It is recognized that the auditor could not be expected to possess the specialized technical knowledge required, in many cases, to establish absolute assurance of the existence of goods of a specified quality, grade and condition. Therefore, useful inspection of the goods by the auditor will require the exercise of reasonable care and skill and good judgment rather than the expert technical knowledge of the goods which would be expected of an appraiser or valuer.

8. In practice, inspection of stock-in-trade by the auditor varies in extent and in procedure. Normally, the inspection applies only to the more significant items in the inventory but, occasionally, it is extended to cover all of the goods. Generally it is carried out at the time of the client's physical stocktaking but, in some instances, it is done at another time. Usually, the checking of quantities is accomplished most conveniently by observing and noting the counts made by the client's staff, but actual test

counts are often undertaken by the auditor, before, during or after the client's physical stocktaking.

Attendance at Physical Stocktaking

9. Observation of the client's physical stocktaking, whether this is at the year-end or some other date, is considered to be the most generally useful of the various inspection procedures. The techniques and the objectives of this procedure are not always well understood but the committee believes that greater understanding, on the part of practising members and their clients, will extend the use of this valuable procedure.

10. Attendance at stocktaking should not be interpreted as implying mere physical presence but rather as consisting of such observation of procedures, of counts, and of general condition of the goods as will enable the auditor to form an opinion on the representations of management as to quantity and condition. It is desirable that a review of the methods to be used by the client in the stocktaking be made in advance. Such review and observation permit an evaluation of the effectiveness of internal control as applied, not only to the book records, but also to the procedures of taking physical inventories.

Other Procedures

11. The judgment of the auditor, in the light of the circumstances, will determine the audit procedures to be applied in each case. For example, if goods of significant value are stored at locations which it is not convenient for the auditor to visit, he may appoint representatives to attend the client's physical stocktaking on his behalf. In some cases, if the accounting system provides a good internal control over the inventories, test counts of inventory items or inspection of stock-in-trade, without test counts, at some time other than at the time of stocktaking, combined with other procedures to confirm the existence of the goods, may provide satisfactory alternatives. In other cases, such as that of goods in transit or goods in independent warehouses, the auditor can satisfy himself as to the existence of the stock-in-trade by means of documentary evidence.

Conclusion

12. It is the view of the committee that, in addition to the audit procedures set out in paragraph 5, attendance by the auditor at the stocktaking, whether this is at the year-end or at other times, should be regarded as standard auditing practice where stock-in-trade is a significant item in the financial position, unless such attendance is not practical in the circumstances. If the auditor has not attended the stocktaking, he should substitute other satisfactory procedures such as those outlined in paragraph 11.

If the auditor has not satisfied himself as to the basis of valuation and the physical existence of the inventory, he should qualify his report.

COMMITTEE ON ACCOUNTING AND AUDITING RESEARCH, 1958-59

T. A. M. Hutchison (*chairman*), Paul Bruneau, Marcel Caron, E. A. Christenson, J. R. Church, W. E. Clarke, P. E. Courtois, G. R. Ferguson, F. A. Griffiths, H. R. Macdonald, L. G. Macpherson, I. E. Millie, G. Y. Ormsby, H. I. Ross, E. N. H. Wright.

Edited by CAMPBELL W. LEACH, C.A.

Tax Review

(This is the second article in the series dealing with non-residents investing in Canada.)

NON-RESIDENT-OWNED INVESTMENT CORPORATIONS

Canada's federal government has accorded special tax treatment to a certain type of corporation to roughly equalize the taxation of non-residents who derive investment income from Canada whether directly or through the medium of a Canadian holding company. Often a non-resident will desire to make use of the legal and operating benefits of incorporation and to facilitate this as well as to encourage investment in Canada and the retention of investment earnings in the country, the Income Tax Act provides for a tax of only 15% upon the income of non-resident-owned investment corporations.

A Canadian company may acquire the special tax status of a non-resident-owned investment corporation (NRO company) if its income is derived from investments and it is owned by non-residents. The non-resident ownership must extend to 95% of all the issued share capital and 100% of the funded indebtedness. Such companies pay tax at the rate of 15% on their net income without any deduction for interest expense, and dividends or interest paid to non-residents are not subject to the usual 15% withholding tax.

One obvious advantage of an NRO company is that in many cases it permits non-residents to accumulate income in Canada without being required to pay the income and other taxes that would be exigible in their native countries if the income were received directly. Added to this are the usual legal and operating benefits of incorporation.

The outstanding features of the taxation applying to NRO companies may be summarized as follows:

(1) The company electing is subject to a special tax rate of 15%.

(2) The taxable income is computed on a basis somewhat different from that applying to ordinary corporations in that no deduction is permitted in respect of interest on its bonds, debentures, securities or other indebtedness nor can losses of prior years be applied against current income. Also, contrary to usual Canadian practice, dividends received from resident Canadian corporations and certain other specified corporations, such as 25%-owned foreign companies, may not be excluded from income, although dividends and interest from other NRO companies may be so deducted. On the other hand, foreign income taxes paid may be deducted from income rather than from the tax payable.

(3) Interest and dividends paid to non-residents of Canada are not subject to a deduction of the usual 15% non-resident tax.

Definition

The definition of and special rules concerning non-resident-owned investment corporations are contained in section 70 of the Income Tax Act (Canada) while the rules concerning the election to be taxed as such are contained in Part V of the Income Tax Regulations.

Federal Tax

The company annually files form T2, which is used by all corporate taxpayers. In addition to the usual information, it is required to attach a certified statement showing any changes during the year in the holders and beneficial owners of its shares and bonds, etc., to provide continuity with the statements submitted with the original election.

NRO companies must declare their income from all sources whether or not it is brought into Canada, from which they may deduct the expenses incurred to earn such income with the following exceptions:

(a) Interest paid on bonds, debentures, securities or other indebtedness may not be deducted. This rule applies to interest paid to both residents and non-residents and also to interest paid on amounts not forming part of the funded indebtedness (e.g., bank and mortgage loans).

(b) Expenses incurred to earn non-taxable income are not deductible. The principal non-taxable income which is likely to arise would be dividends and interest from other NRO companies. The procedure is to disallow that percentage of total expenses which the non-taxable income bears to the total gross income.

(c) Depletion allowances are permitted on dividends received from Canadian mining, petroleum and natural gas companies.

Unlike ordinary Canadian corporations, NRO companies cannot deduct from net income dividends received from other taxable Canadian companies, dividends from non-resident companies in which they have an interest of more than 25%, charitable donations and business losses of other years. However, they are permitted to deduct:

(i) Dividends and interest received from other NRO investment companies.

(ii) Income taxes paid to foreign governments in respect of income for the year derived from sources in such countries.

The method of calculating the tax liability of an NRO company is illustrated by an example (p. 439).

Sources of Income

While most NRO companies will derive their income from dividends and interest, they may also derive income from real estate, patents and other specified sources. Care must be exercised, however, to ensure that all the income is derived from the sources specified in the Act as the smallest deviation will prevent a company from obtaining NRO status and will disqualify those that have obtained it previously. Commissions or guarantor's fees will not qualify as NRO income, even if they arise from the lending of securities. Similarly, the receipts of management fees would disqualify a company claiming NRO status.

The advantages of NRO status for holding real estate in Canada are quite substantial as the tax is confin-

CALCULATION OF TAX OF NRO COMPANY

	Non-taxable	Taxable	Total
Revenue			
Dividends from NRO companies	5,000		5,000
Dividends from Canadian companies		7,000	7,000
Interest from Canadian companies		2,000	2,000
Foreign interest and dividends (gross)		6,000	6,000
	5,000	15,000	20,000
Expenditure			
Interest on bonds and bank loans	2,000		2,000
Foreign taxes paid or deducted at source		1,000	1,000
General expenses (apportioned)	1,000	3,000	4,000
	3,000	4,000	7,000
Net income	$2,000	11,000	13,000
Tax at 15%		$1,650	

ed to 15% of the net income (after depreciation) as opposed to the 15% of gross income ordinarily applicable to non-residents or the normal tax rates where an election is made to be treated as a resident of Canada. The advantages of real estate holding are substantially reduced, however, by the requirement that not more than 10% of the gross income may be derived from rents. While the term "rents" presumably applies to real property only, there is some doubt as to whether it might not also apply to hire of chattels and charter-party fees, with the result that, while the advantages are substantial, only a small part of the company's business may consist of such income.

With respect to patents and similar property, no restrictions exist as to the maximum percentage of income which a company may have without losing its NRO status. As a result, such companies may be set up to hold patents and other intangible rights exclusively. The income derived through royalties would be taxable at the 15% rate, but only after the deduction of operating expenses, foreign tax payments and depreciation, if any. The cost of patents or limited franchises and concessions may be amortized over their life with a consequent reduction in the tax upon the royalty income or, if such an asset is acquired by way of gift, the fair market value may be used for amortization purposes. Irrespective of the amortizable cost, however, patents and other similar rights may be purchased by NRO companies for substantial sums which can be paid for out of earnings after the 15% tax, thus converting ordinary income into capital gains for the vendor who, while theoretically disposing of them, still maintains full control through share ownership.

Distributions

There are no provisions in Canadian tax law for the enforced distribution of surplus nor are there any taxes imposed if earnings of a corporation are accumulated indefinitely. However, where it is desired to make distribu-

tions to shareholders, it should be noted that dividend and interest payments may be made by NRO companies without attracting any further Canadian taxes including the non-resident tax normally withheld at source. Furthermore, no tax is exigible where the dividend or interest payments pass through a Canadian trust. This permits non-residents to hold shares in NRO companies through the medium of a Canadian trust which is sometimes considered advantageous in case of war or other hazards.

In cases where the company has not always had NRO status, special rules apply to determine whether the 15% non-resident tax is exigible. Generally speaking, the non-resident tax is applicable until the earnings accumulated before NRO status was acquired are exhausted. Where distributions are made to Canadian residents, who, of course, cannot represent more than 5% of the share capital, the income is treated in the same manner as income from an ordinary Canadian company.

General

Non-residents should take care that the Canadian corporation which they organize is recognized as a separate taxpaying entity by their own tax authorities so that its income will not be taxed in their own country until actually distributed. For instance, United States citizens and residents are taxed on all of the income of a "foreign personal holding company" whether or not it is paid out in dividends. Similarly, individuals in the United Kingdom may be taxed on income derived from assets transferred abroad and companies may find that their foreign subsidiaries are taxed as resident companies. In such cases, the tax advantages of an NRO company may be limited.

It is also necessary to consider the tax treatment of foreign income in the country in which the shareholders of an NRO company reside, as the creation of such a company could deprive the shareholders of valuable tax credits. For instance, individuals and corporations resident in the United Kingdom may claim tax credits in respect of the income and non-resident taxes paid by a Canadian company from which they receive dividends. If the shares of an ordinary Canadian company are held directly by residents of the U.K., credits would be available (to the extent of the effective U.K. rate) for the corporation income tax which ranges up to 47% and the non-resident tax of 15% if applicable. If the shares of this ordinary Canadian company were owned by an NRO company which was, in turn, owned by residents of the U.K., the credit would be restricted to the 15% NRO tax. On the other hand, no such problems exist with respect to United States corporations as they are entitled to claim a credit in respect of the foreign taxes paid by a 50%-owned subsidiary of a foreign parent as well as the foreign taxes paid by the foreign parent itself if the U.S. corporation owns at least 10% of its stock. However, as far as individual citizens of the United States are concerned, they may only claim a credit in respect of the non-resident tax paid on their behalf by the foreign company. As the 15% NRO tax is not a non-resident income tax, no credit would be available for individual U.S. shareholders.

In certain circumstances, other non-resident withholding taxes may be a factor in favour of the formation of an NRO company. Canada has en-

tered into reciprocal tax conventions with various countries which limit the rate of withholding to 15% on dividends and interest. By organizing an NRO company in Canada, withholding taxes will be limited to 15% on dividends and interest received from such countries. For example, the United States of America imposes a withholding tax of 30% on dividends paid to countries with which it does not have a reciprocal tax convention. Where the dividends are paid to a Canadian NRO company, the rate cannot exceed 15% so that the combined U.S. and Canadian tax will amount to only 27.75% instead of 30%. Difficulties will arise, however, if more than 50% of the income of the NRO company is derived from U.S. sources as it may be treated as a foreign personal holding company and additional U.S. taxes imposed.

Another factor to be considered is the Canadian withholding tax itself. The maximum rate in Canada is 15%, the same as the NRO tax, but this is reduced to 5% in the case of dividends paid by a wholly-owned Canadian subsidiary which meets certain qualifications. Under the tax agreement concluded between Canada and the United Kingdom, no withholding tax is exigible where all the shares of the Canadian company are owned by the U.K. parent. If the parent company is resident in the U.S., the Canada-U.S. agreement reduces the rate to 5% so long as the parent company owns 51% of the voting stock of the Canadian company, or the parent, in association with three other U.S. corporations each owning at least 10%, owns 51% of the Canadian company.

The type of asset or investment to be held by the NRO company must also be taken into consideration. Dividends received by an ordinary Canadian company from another Canadian company not exempt from tax are deductible in computing taxable income. Also exempt are dividends received from a foreign business corporation or non-resident company if more than 25% of the voting stock is owned by the receiving corporation. Thus, if the preponderance of assets is of this type, it may not be advantageous to elect to be taxed as an NRO company because such companies may not exclude this type of dividend. However, interest and other income is subject to the ordinary corporation income tax which is 20% on the first $25,000 and 47% on any excess. Consequently, to determine whether NRO or ordinary status is preferable in a given situation, a careful inquiry is necessary. Not to be overlooked is the fact that when dividends are paid, no withholding tax is exigible in the case of NRO companies whereas the usual rates apply to dividends paid by ordinary Canadian companies. If the company in the example illustrated previously were to be treated as an ordinary Canadian corporation, the income tax payable would be $280 only, calculated as follows:

Gross revenue		20,000
Deduct:		
Non-taxable dividends	12,000	
Interest and general expenses (apportioned)	2,400	14,400
Taxable income		$ 5,600
Tax thereon:		
20% on the first $25,000		1,120
Less:		
Foreign tax credit— $\frac{6,000}{8,000} \times 1,120 =$		840
		$ 280

While the tax of $280 is less than the $1,650 payable if the company elected to be treated as an NRO company, there would be a 15% non-resident withholding tax payable on the distribution of the earnings amounting to some $1,908. Therefore, consideration must be given as to whether the income is to be left in Canada or paid out and also to the laws of the country of residence as to the treatment and tax allowances for such income.

(*A subsequent article will deal with foreign business corporations, provincial taxes, estate taxes and the effect of tax agreements with other countries.*)

Income Tax Forms in Japan

The London "Evening News" recently published this report from its correspondent in Tokyo:

If you were living in Japan you would be thinking of hiring an "electronic brain" at this time of year. And wishing you were back in England, where those "simple" four-page tax return forms are the rule.

For this is income tax time in Japan and millions of Japanese and hundreds of Europeans are wrestling with an eight-page tax form that makes British tax forms look as simple as Mother Goose's nursery rhymes.

Sample paragraph: "Take the appraised value of your house, multiply it by the floor space you occupy, divide it by the total floor space, multiply the result by the number of days during 1958 in which you were a resident taxpayer, divide the answer by 365, multiply that by 108 and divide the answer by 100."

More than mathematical gymnastics are required if you report less money spent in Japan than the sum required after multiplying and dividing the value of your house six times.

The income return asks this simple question: "Are you a permanent resident of Japan?"

But the fog moves in when the questionnaire explains: "Foreigners who began their present term of residence after September 2, 1945, are not permanent residents unless their answer is 'Yes' to this question."

- *Taxes*, April, 1959

Edited by GEOFFREY H. WARD, C.A.

Practitioners Forum

Mergers

(1) *Viewpoint of the large firm*

In recent years, a substantial number of accounting firms have merged. One merger involved two "national" firms, and several "local" firms have joined together. Most frequently perhaps a one-office "local" firm merges with a multi-office, Canada-wide "national" firm.

In order to delve into the reasons behind these moves and also, incidentally, to ascertain why some small firms prefer to remain as they are, questions were put to a representative panel of practising accountants in different parts of Canada. They were asked to comment on the advantages and disadvantages of a merger to a small firm and to a national firm. They were also asked what points the national firm look for when selecting a firm to represent them and correspondingly what points the small firm should look into when approached by a national firm.

The help of all of them, so freely given, is appreciated. Particularly valuable was the assistance of W. L. C. Wallace in Vancouver and A. F. Gosling in Moncton.

Is There a Trend?

The growth of the national firms somewhat parallels the growth of industrial and commercial activity in Canada. One thing that national firms can do better, solely because of their size, is to serve widespread industrial and commercial businesses. As Canada grows, the number of Canada-wide organizations increases; hence there is a corresponding increase in the number of offices of the national firms. Some of the panel did not quite agree with the contention that there is a trend towards mergers and larger firms. They pointed out that there are also many small firms being started and that "local" firms are growing.

Another correspondent stated: "I believe that it is altogether probable that the national firms will continue to expand and in so doing swallow up more of the smaller practitioners. No doubt the smaller firms who do not merge may lose clients to the national firms, but there will always be a need for the smaller practitioner. The national firm can offer prestige to a public company, but it will always have to struggle to give a personal touch to its dealings with the smaller clients. A client feels slighted if his affairs are looked after by a junior partner or by someone below that status."

General Considerations

Whether or not to merge, assuming there is an opportunity to do so, is a major decision. Undoubtedly many practitioners question the desirability of amalgamation. Because a partnership is a very close relationship, one should be very sure of the other partners. It is one thing to like someone observed from a distance, but quite

another to work with him in close personal contact and share his interests.

Let us endeavour to assess some of the determining factors in a prospective merger. The considerations of partners in the small firm are likely to be of a personal nature. On the other hand, the national firm's reasons are probably impersonal ones, such as desire for expansion or need for representation in a given area.

Why does a small firm consider a merger? The first reason is likely because it has been approached by another firm. Secondly, its partners may prefer to be part of a large organization, thereby having a "big brother" to lean on. Perhaps there are staff difficulties, and the larger firm can be of material assistance. Then there is the prospect that the smaller firm will expand its activities by associating itself with the larger firm, particularly if the latter is not already represented in the city concerned.

Greater assurance of financial security may be a contributing factor; or the sole practitioner may feel that the scope of his practice is limited by his location. As a member of a national firm he might be able to transfer to a larger office.

In the interests of the profession, is it desirable for all accountants to be in large organizations? What is happening in commerce, industry and farming today? Industrial firms are buying up competitors or merging. Some farmers are finding that they cannot operate at a profit on a small scale and must either go out of business or expand. Large retail chain stores are growing with the result the single store operator is having difficulty operating profitably. Nevertheless, public opinion recognizes that these small businesses are essential. Similarly the small accounting firms have a special function to perform. They provide a more personal service than a large organization. They are organized to serve the small businessman. Many prefer to do business with the smaller firm. The profession has a duty to the public to provide adequate service. Small towns and cities need a resident accountant to look after the local businessman.

We will now consider each phase of this topic separately. Most of the following remarks are quotations from, or condensations of, the comments of different practitioners.

Advantages to the Large Firm

A concise statement was made by a senior partner in a national firm: "It is very difficult for a national firm to get started without sound local connections. Our experience has certainly been that we have done better when selecting a good local firm than when sending out someone from one of our larger offices."

For a more detailed appraisal, let us consider other views: "In order to be in a position to render service to its clients across Canada, a national firm should have offices in all the principal cities of the country. At the present time, most of the national firms are not quite that widespread. As some of the less populous areas of Canada develop, their clients expand their operations into those areas. An important client may open a large branch in a location that is not convenient to any office of the auditor. To serve them well and to keep expenses at a minimum, it becomes necessary for the auditors to open an office there."

"Mergers and acquisitions of subsidiary companies are becoming more general in almost every type of business. The national firm finds its clients with plants and companies far away from head office. The records of these new subsidiaries have to be audited. The heavily increased costs of travelling make it difficult to justify the fee which it must have on an out-of-town assignment compared with the fee which another national firm, with an office in that particular city, would charge. National firms sometimes rely on local correspondents to take on assignments of this nature. If the work farmed out on this basis continues to increase, the national firm finally decides that it might just as well open its own office to provide more complete control over the work done and, at the same time, to pick up the revenue which would otherwise be earned by the correspondents."

When a national firm decides that it should have an office in a certain city, it then has to choose between opening an office and moving in the required staff or merging with a local practitioner. If the national firm does not have sufficient work in the city to cover the overhead of an office, then it would face material losses in the initial years. It is less costly to obtain an office in a new location by merging.

Most national firms carry on extensive staff training programs designed to train staff at various levels, and also to develop the more promising staff members into supervisors and partners in due course. There are times when this development cannot take place fast enough to match the growth of the firm's business. In those circumstances the national firm may look around for men suitable as partners. A national firm may wish to obtain the services of a practitioner who has developed a reputation as an expert in some special field such as taxation or management advisory services. This situation can lead to a merger. Additional trained staff may be obtained by merging in preference to transferring or recruiting.

The national firm may have a very large client in a small city whose engagement requires a large audit staff. If the office is small, this necessitates either the recruitment of temporary staff, which is generally unsatisfactory, or the borrowing of staff from other practitioners, which may be difficult because of the time of year the staff are required, or the borrowing of staff from another office of the national firm, which is expensive. This crucial staff problem can be alleviated by merging with a suitable local firm.

The clientele of the national firm may consist substantially of branches of its national clients. This often results in an unprofitable operation. An office which handles largely referred work has little control over when it must do that work. This leads to "unusual peaking", which is expensive. A merger may provide additional clients whose work can be done during off peak period. If the clientele of an office is to grow, the firm has to obtain a substantial amount of local clients. Few national firms will enter into a merger just to acquire more volume. However, occasionally a smaller firm has one or more particularly "desirable" large clients with considerable growth possibility. Presumably national firms take some pride in their size and number of offices; this is only human. Their competitive position may be strength-

ened by the addition of another successful office.

Large Firm's Appraisal

When considering a merger, what points will the large firm study? Is the practitioner of the calibre it wants for a partner? What is the size of his practice? Is he well thought of in his locality? Has he established himself as a sound businessman? Is he capable of handling larger assignments? Will the merger place the resources of the larger firm at the disposal of a growing community?

While their opinions cannot be said to conflict, members of the panel worded their answers differently. Here are three replies:

"You have asked me what points the national firms are looking for when selecting a local practitioner. I think primarily they are looking for manpower. They are looking for men of integrity with good connections, and of course when they find these they usually find a practice with a good class of accounts."

"In selecting a local practitioner, the national firm generally wants a 'professional' accountant. A person who is willing to devote his full time to the practice of his profession with a high degree of technical competence and a well-developed ability to deal with clients."

"They also require congenial partners who can be trusted with the firm's reputation and a firm with a good reputation locally. The ages of the local partners are important. The two best ages are, on the one hand, partners verging on retirement who can carry on in a more or less consulting capacity and, on the other hand, young partners who have had approximately five years experience. Anything less than five years gives one little opportunity to judge their effectiveness. A combination of the two age groups is also very desirable."

In addition to technical competence, an aggressive business outlook and proven ability to make money were suggested as desirable characteristics. Of course, the new partners must be willing to be part of a team and accept the unavoidable restrictions imposed on members of any large organization.

The considerations mentioned this far suggest that everything about a merger is desirable. In actual practice, mergers do not always work out quite that way. As in most business transactions there are advantages and disadvantages.

Disadvantages

One correspondent states his views frankly and concisely:

"Being in a national firm myself, I am convinced that most of the disadvantages of a merger are illusory. My own impression is that this is borne out by the experience of local firms who have come in with us. I think few of them have any regrets.

"The great question is, of course, one of independence. Most professional men resent being forced to conform to a pattern by a distant head office. I think this is largely a matter of merging with the right people. Congeniality is certainly an important requirement. If a small firm merges with a large one with very similar views on the profession and on life in general, there is very little chance of trouble. On the other hand, it is simply dynamite to become involved with a firm which has a fundamentally different approach to one's own. The only disadvantage

from the larger firm's point of view is that there is always quite a chance of choosing the wrong firm to merge with. If a good job of selection is done, there seems very little chance of disadvantage."

Now let us consider in more detail the views of some other practitioners: "Because national firms place a very strong emphasis on technical competence, they organize a great many study groups to consider academic and practical problems of the profession. They insist on keeping up-to-date on developments affecting the profession. This general emphasis on professionalism does not appeal to some practitioners. The national firms generally insist that their partners devote their full time to the firm, and there are usually one or more clauses in the partnership agreement designed to emphasize this. These clauses generally prohibit the partner of the national firm from having a financial interest in any other business. They may also restrict the types of investment he can make. For instance, it is quite common to find a requirement that a partner cannot have any investment in the businesses of clients. This requirement is there to help insure the independence of the firm in its professional work. These restrictions do not suit many practitioners.

"Some practitioners consider their practice a part-time activity, using the rest of their time to further other business interests. Some of these may ultimately reach a stage where they abandon their professional practice and devote all their time to their other business interests. Such activities have led to very substantial monetary rewards and involve a type of activity that some practitioners have found more satisfying than professional work. People who have aims and goals such as these should not enter into partnership in a national firm. In the small firm the financial rewards are more closely associated with the direct activities of the individual than they are in the national firm. Accordingly, there may be more ups and downs, but some people, in the long run, may make substantially more practising by themselves, than they would in a national firm. There are varying degrees of authority in national firms and the acceptance of this varies with individuals. Some people like to be entirely independent and make their own decisions. These people will usually find adjustment to the ways of a national firm difficult."

"One of the disadvantages of being in a national firm is that you must conform with firm policy, which may not be in your own best financial interests. On the other hand, the national firms are right in insisting on a very rigid policy, because with partners spread all over the country, conflicting interests may arise. It is not in the best interests of the profession for practising members also to have commercial interests. If one is dedicated to professional work and financial return is of secondary interest, then this point is of little importance. Unfortunately the financial rewards after income taxes, even for the successful practitioner, are somewhat limited outside the large centres like Montreal and Toronto. Outside of this point I can think of few disadvantages of being associated with a national firm. On the other hand, there are many advantages."

(In the next column this topic will be considered from the point of view of the small firm.)

American Institute Publications

It occurs to us that many of our readers may not be familiar with the impressive publication activity of the American Institute of Certified Public Accountants. Although we do not have the space here to discuss all of the books and pamphlets which they currently make available, it may be worthwhile to mention a few, if only to indicate the nature and scope of the material which is being produced by our professional colleagues in the United States.

Official Releases. Committees of the American Institute are constantly examining questions of accounting principles and auditing procedures in order to provide the profession with standards of method and treatment. The conclusions of these committees are reported in official pronouncements – *Accounting Research Bulletins, Statements on Auditing Procedure* and *Accounting Terminology Bulletins.*

These pronouncements cover a wide variety of subjects. The latest research bulletin deals with contingencies, and the most recently issued statement considers the scope of the independent auditor's review of internal control.

Special Studies. In addition to official releases, the committees and staff of the American Institute develop and prepare studies in specific areas of activity and interest. For example, a number of case studies in auditing procedure have been conducted to show how actual audits are made for specific industries.

The subjects of long-form report practice and consolidated financial statement practices are analyzed in two special publications. There have also been separate studies made on the extent of audit samples, internal control and generally accepted auditing standards.

The Accountants' Index reflects some of the most impressive work being done by the American Institute. Every two years, a new supplement to the *Index* is brought out; it lists all of the major books, articles and pamphlets which have appeared in the English language during the period covered. It is truly a unique and invaluable service to the entire accounting profession.

In addition to the foregoing, the American Institute has, in recent years, published a number of books which are concerned with major areas of interest to professional accountants.

The CPA Handbook is a two-volume work which is almost encyclopedic in scope. Prepared by experienced practitioners, it has been designed to serve as a complete guide to the services and management of an accounting practice.

Practical Applications of Accounting Standards is a collection of the writings of Carman G. Blough. It covers a wide range of practical accounting and auditing problems which have actually confronted practitioners and gives Mr. Blough's expert solutions to these problems.

Finally, we have just received advance word of a new book which is scheduled for publication this spring. It has been prepared by our counterpart in the United States, Mr. Bernard B. Isaacson who edits *The Journal of Accountancy's* Practitioners Forum. Titled *Guides to Successful Accounting Practice,* the book includes nearly 100 discussions and illustrations of actual procedures and

techniques which have been developed by successful accountants to make their accounting practice more efficient and profitable.

A 1959 catalogue describing all of these books and pamphlets in greater detail is available from the American Institute free of charge. Readers need simply write to the Institute's Publications Department at 270 Madison Avenue, New York 16, New York.

It is true that certain of these publications are concerned with problems, methods and procedures (especially in the area of taxation) which are of limited interest to Canadian practitioners. But certainly the majority of them are of definite importance to all professional accountants and therefore merit your consideration.

Simplicity in the Office

In the last few years there has been a growing awareness in industry of the evils of excessive paperwork, of wasteful practices and useless statistics. All accumulate automatically in every organization, unless there is a conscious recognition of the danger and a positive determination to combat it. Excessive paperwork and wasteful practices are born of inertia. Paper increases because people avoid the effort of personal contact and come to rely on the exchange of correspondence. Wasteful practices arise from the failure to apply commonsense to systems and methods. They are also the outcome of resistance to change. New technologies, new materials and changing needs all demand new ways. Commonsense and flexibility of mind– the willingness to change with changing needs – are rare qualities.

Perhaps the greatest evil is the growth of statistics, because management too often encourages the growth in the belief that statistics illuminate the business and that the more there are the better will be the management control. The danger is aggravated by the ease with which statistics can be mass-produced in these days of modern accounting machinery. Even the familiar punched-card systems are easily abused – they are very tempting if there is tabulating time to spare. Wherein lies the danger? It lies in the fact that statistics come to be valued for themselves to the neglect of the people or things they represent. Their growth leads to dependence on paper and remoteness from people and their work. They generate a wrong attitude of mind and, what is worse, they employ valuable human beings on purposeless jobs.

– M. J. Glenn, "Simplification for Efficiency", *Accountancy*, March 1959

BY J. E. SMYTH, F.C.A.

Associate Professor, Queen's University

Students Department

AUDIT CASE

Except for editorial changes in dates and amounts, a recent auditor's report has included the following qualification:

"As of May 31, 1957 and November 30, 1957, we carried out procedures to confirm the company's investments in shares of other companies and its holdings of its own shares available for resale. As of May 31, 1957 we were unable to obtain satisfactory confirmation of shares having an aggregate book value of $865,333.00 as shown by the company's accounts at that date. As of November 30, 1957, we were unable to obtain satisfactory confirmation of shares having an aggregate book value of $321,844.00 at that date. As of June 23, 1958 we obtained satisfactory confirmation of all the company's investment in shares of other companies and of the shares of its own stock available for resale except for 11,034 shares of . . . . whose book value at that date amounted to $43,822.00."

° ° ° ° °

The auditor has provided us with the following explanation of his decision to make a qualified report in this form:

"This was an instance where, as you can see, we did not and could not account for all the securities as of various dates on which we attempted to verify the company's holdings. Explanations were given to us, but they seemed rather tenuous and difficult to verify. It may be of interest, therefore, to consider how the qualification was worded. You will notice that we refer to confirming the company's investments. This was done purposely as we considered that confirmation may be obtained by inspecting the securities or by receiving a written acknowledgment from a reliable third party that he was holding the securities. The use of "confirm" is economical of words. We were at some loss as to how to indicate the amounts involved as write-downs took place in the book values of the shares as of June 23, 1958. We felt that it was only appropriate that the carrying values of the securities, as shown by the books at the dates of the counts, be used, and we used those values accordingly. You will note that as of June 23 we still had not satisfied ourselves as to the whereabouts of shares with a book value at that date of $44,000 approximately, but at that time we decided that while we should qualify, we need not withhold an opinion as the shares amounted to only about 3½% of the company's assets."

° ° ° ° °

In answer to an inquiry from the editor about the circumstances in which the company might be holding its own shares as assets, the auditor replied:

"Under the provisions of the Com-

panies Act under which the company was incorporated it may not, as you say, hold its own shares. What happened was that on three occasions the company made agreements whereby it would acquire properties for which the consideration would be a number of shares of its own capital stock. In one instance, the agreement was cancelled after the shares had been issued. In the other two instances, the agreements provided for a calculation of the value of the property being acquired and depending upon the value were the numbers of shares of the company's capital stock to be issued. In these two latter cases, shares were issued on the basis of preliminary valuations. Subsequently, it was found that too many shares had been issued as lower values were later finally determined. In these cases the excess shares were turned over to a trustee (a trust company) which holds the shares for resale."

* * * * *

The editor next submitted the audit case to a panel of practising accountants, and the following exchange of questions and answers is a summary of his correspondence with members of the panel and the auditor in question:

Question: "What is the significance of the three dates mentioned? If the date of the accounts was mentioned this might be clarified. Would May 31, for instance, be the date of an interim examination?"

Answer: "May 31, 1957 was the date of an interim examination and November 30, 1957 was the date of the end of the company's financial year. June 23, 1958 was the date on which we obtained satisfactory confirmations of all the company's investments except for a small portion of the company's own securities held for resale."

Question: "If the auditor was unable to confirm the securities because the company's records of security movements were inadequate in some way, would he be able to state that he had obtained all the information and explanations which he required?"

Answer: "We added the following words to the usual last sentence in the scope paragraph: '. . . but we were unable to obtain all the information and explanations which we required as set forth in the succeeeding two paragraphs.'"

Question: "If, for example, we are dealing with an Ontario company, how could the directors when authorizing the issue of these shares make a resolution 'in good faith' that the property received was 'in all the circumstances of the transaction the fair equivalent of cash . . .' (section 31(2) of the Corporations Act, 1953) when only preliminary valuations were made?"

Answer: "The first valuations of the property received were 'preliminary' in the sense only that they provided a basis for calculating the number of shares to be issued. They were, so far as I know, made in good faith. Their subsequent re-examination and revision would not detract from that good faith."

Question: 'Can the shares which are in the hands of the trustee legally be sold? If my understanding is correct, resale would presumably constitute distribution to the public and the requirements of the applicable provincial securities commission would have to be met."

Answer: "The company obtained legal opinion as to its position on having to

withdraw the shares and the manner in which they were dealt has therefore received careful consideration. I have no doubt that the shares are legally available for resale, although certain steps would have to be taken such as clearance with the securities commission, and this would probably entail filing prospectuses."

* * * * *

[Audit cases such as the one above will appear from time to time in the Students Department. They are contributed by practising accountants with a view to providing material of interest and assistance to students. The facts of the cases will be edited so that the identities of the client company and the auditor are disguised.]

PUZZLE

Years ago, in Western Canada, eight teams representing eight colleges agreed to form a hockey league, At the meeting of the representatives of the eight colleges, it was resolved that each team would play one game against every other team in the league.

In order to reserve the rinks in advance, the question arose about how many games would be played in that league during the season.

Believe it or not, those college men had to put on their thinking caps and deliberate quite a few minutes before solving the problem. Finally, however, they arrived at the right answer What was it?

(*Contributed by Mr. Horace E. Madore, C.A., Montreal.*)

(*The solution to this puzzle, and a discussion of it, appear at the end of this month's Students Department.*)

The Technique of Writing Examinations

*Irving L. Rosen, C.A.**

When first asked to write this article, I hurriedly pictured the technique of writing examinations as working on the paper until one's arm feels like falling off and one's vision blurs. By that time four hours are over and the examiner is cheerfully stating "Time is up". However, many marks can be lost through improper technique or habit, and the subject merits discussion. While it is possible that one man's meat is another man's poison, each of the following suggestions seems to have worked for this writer:

1) Write an answer in point form unless the problem requires letter style and paragraphs. This not only saves time, and wear and tear on the marker, but it also helps the candidate. If your mind is cluttered up with the "padding" you are going to put around each point in the hope of getting more marks, you often forget or have no time for additional important points.

2) If rushed for time, cut your time limit on the remaining questions so that you answer each one. It is better to half-answer three questions than fully complete one, when time is running out. Furthermore, answers usually work on the "law of diminishing returns"; the good ideas pop out first and as more time passes the relevance and importance of ideas diminish.

3) Answer the easy questions or the questions you know first. Every paper usually gives the student 65

* Mr. Rosen was winner of the Governor-General's Gold Medal for highest average standing on the final examinations of the Canadian Institute, October, 1958.

marks if he knows the work; the remaining 35 marks are the hard ones. It can be fatal to work on question 1 if it is a stickler or difficult or time-consuming when you could have picked up 30 or 40 marks doing some of the easier questions.

4) When doing a question, read the "required" part first and underline the important features, so that on reading the problem, you can determine more readily the use to be made of the facts given to you.

5) Write neatly; or if you cannot write neatly, write big – this usually makes your writing legible enough. If the markers are unable to read your writing, do not expect a pass.

6) Sometimes if you imagine the problem is one really happening to you, you answer it more realistically. In auditing or systems, the answers are sometimes quite academic and seldom represent what the student would actually do in practice; the realistic approach is often what the marker is looking for.

7) Relate the question to some section of the texts or lessons. Often the question is designed to see if you know a particular research bulletin, or the pros and cons of a controversial theory. If you can associate the question in such a way, you will have the fundamentals of the answer.

8) If you run out of points in a question, give several relevant examples.

9) Always look for short cuts. For example, if you have to make up and compare balance sheets for several companies or for one company over a series of years, list the classifications down the left side of the page and tabulate your answer across the page; the alternative of writing up a separate balance sheet for each company could ruin your timing.

10) Do not write a book in the narrative for journal entries; just give the bare facts and fill in later if you have more time.

11) If you give one good point for each mark in the question, you will seldom be caught short.

12) If making assumptions, state them. For example, if you are using *Fifo* or average cost for in-process inventories in a process cost accounting question, state which method you are using.

13) Read part (b) in the question as well as part (a). It may give you a hint as to the answer required or, at least you will not duplicate what is expected in part (b) when you are doing part (a), and possibly get ahead of yourself.

14) Watch your timing. Go in with a watch and time each question; it is ridiculous to spend 45 minutes on a question worth 10 marks.

15) This last point is important. Practise on at least the past four years examination papers under actual examination conditions, timing yourself, and writing the answers out fully. You can read the whole course over and still fail because you have not practised "under fire". Also do one of these examination papers before you even begin studying. If you have done all your lessons properly, you will be surprised to find you can get most of the answers. But more important, you will realize that the examinations are a little more difficult than you thought they were and much more difficult than the last set you wrote. You will find yourself studying more intensively after this first "taste of the front-line".

NOTES AND COMMENTS

Oh, Those Dollars!

Of all the assumptions underlying financial accounting, the one we find most subtle is that all business resources should be susceptible of expression in terms of dollars.

When we think about it for a moment, we see that this is not entirely true. No matter how diligent the accountant may be in assigning money figures to assets, moving about like a zealous painter with a bucket full of dollars, there remain a few elusive resources that he misses. A well-run business is almost always host to at least a few favourable factors that are not amenable to accounting description, at least until they materialize vaguely in future revenue. The ability of a business to borrow readily on short notice is one such resource, as are also its satisfactory relations with suppliers and customers. So too is the efficiency of its management, the enthusiasm and morale of its employees, and the esteem in which the business is held by the public generally. Its particular location may also have become a marketing advantage of importance. All these intangible business resources defy accounting treatment.

As we think still more about the matter, we see that even among those assets which *are* included in accounting reports, some are more susceptible of expression in terms of dollars than others. In accounting we attempt to portray all the types of property which comprise business assets by using a common medium of description – number of dollars. We do well to realize that we sacrifice something in precision and detail when we have to apply the same descriptive device to many different things.

If we run down the list of accounting assets, we may note that while all are expressed in dollars, they are not equally close to being the equivalent of cash in hand, now. Part of the trouble, it seems, is that we are so accustomed to thinking of a number of dollars as being synonymous with money, that using dollars to describe assets other than money invites a continuous interpretation of those assets in terms of money.

For much of accounting theory, the basic distinction is not as between current and fixed assets, but as between *claims to cash* (bank deposits, trade accounts receivable and marketable securities) and *unexpired costs* (inventories, prepaid expenses, and long-term assets). The relationship between dollars and "claims to cash" is immediate enough: they can either be exchanged for money right away or will be replaced with money in the near future. But the relationship between money and assets of the "unexpired costs" category is more tenuous: the money potential in these assets can be realized only by selling them in future as a part of the total package of goods and services which the business offers for sale to its customers.

* * * * *

A single asset, like a building, may be such a complex concept that in describing it we are obliged to concentrate on some particular aspect of it —to the exclusion of other aspects. Neither the painter with his brush, the musician with his instrument, nor the poet with his pen can express *all* that there is to be said about a given object of our observation. The sentimental business man who thinks that nothing short of a sonnet will do justice to a description of his plant

and equipment must accept instead from his accountant only two figures, one for original cost and one for accumulated depreciation to date. Fortunately for the preservation of accountancy however, financial data seem to have a peculiar eloquence of their own.

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In thus speaking of the limitations of dollars as a descriptive medium, we have not referred to the problems created by changes in the purchasing power of money. We have not done so because these problems are of such scope that they deserve to be considered separately—another time—ED.

THE QUESTION CORNER

From a reader in Ottawa:

"A religious organization obtains money from its members for the purpose of buying land and a building. The executive of this congregation wishes to show this money as a separate amount apart from a surplus which was a result of the excess of revenue over expenditures. There is no ownership attached to the opening contributions.

"It has been suggested that the opening contribution be shown as capital, while the excess of revenue over expenditure be shown as surplus.

"Your views on the above would be appreciated."

Editor's Reply:

In my opinion, any religious organization or charitable society has an obligation to earmark on its accounts those contributions which are made to it for a specific purpose; to do otherwise would be a breach of faith with the donors. The term "capital", however, is usefully restricted to an explanation of the source of those assets which have been introduced into a business by its *owners*. Accordingly, a description for the credit balance such as "Contributions for land and building" or "Building fund" would be preferable for this particular source of assets. This treatment will earmark the funds contributed, and will record separately any excess of revenue over expenditure which is reported.

(*The editor will welcome from readers any comments on, and criticisms of, his opinions.*)

SOLUTION TO PUZZLE

There are 8 teams in the league, and each team will have to play one game against every other team in the league, that is, with every one of the seven other teams.

Consequently, each team will have to line up 7 times.

As there are 8 teams in the league, the total number of the line-ups in the league will be 8 x 7 = 56.

As it takes two line-ups to play a game, the number of games played will be 56 divided by 2, that is, *28 games*.

Editor's Comments

Readers who can recall their high school algebra may identify this puzzle as one of calculating a number of *combinations*, that is, the number of ways in which 2 things can be selected together from a total of 8 different things. The formula is $8C_2$

$$= \frac{8!}{2!\ 6!} = \frac{8.7}{2.1} = 28.$$

(where 8! = "8 factorial" = 8 x 7 x 6 x 5 x 4 x 3 x 2 x 1)

The theory of combinations confronts us every time we are late for work, and have to rush to the cupboard at the bottom of the cellar stairs to extract a pair of overshoes. There are five members in our family, each of whom has three pairs of overshoes of assorted types, making a total of 30 individual galoshes, rubber boots, and rubbers in all. From these we have to select a pair — *our* pair — the ones we want just then and have to find in five seconds. There are $30C_2$ ways of selecting any two overshoes from 30, without regard to the order in which they are chosen, right or left, that is $\frac{30!}{2!\ 28!} = \frac{30.29}{2} = 435$ different ways of doing it!

TIMETABLE OF OCTOBER 1959 UNIFORM EXAMINATIONS

The Board of Examiners-in-Chief gives notice that the 1959 examinations of the Institutes of Chartered Accountants in Canada will be written according to the following timetable. The morning sessions will be from 9 a.m. to 1 p.m. and the afternoon sessions from 2 p.m. to 6 p.m.

Tuesday, October 13

Morning session — Final Accounting I
Afternoon session — Intermediate Accounting I

Wednesday, October 14

Morning session — Final Accounting II
Afternoon session — Intermediate Accounting II

Thursday, October 15

Morning session — Final Accounting III
Afternoon session — Intermediate Auditing I

Friday, October 16

Morning session — Final Auditing I
Afternoon session — Intermediate Auditing II

Monday, October 19

Morning session — Final Auditing II

Tuesday, October 20

Morning session — Final Auditing III

BY PETER C. BRIANT, M.B.A., C.A.

Current Reading

MAGAZINE ARTICLES

ACCOUNTING

"CAPITAL EXPENDITURES AND DEPRECIATION FOR NONPROFIT INSTITUTIONS" by Ernest W. Baldassare. *The New York Certified Public Accountant*, March 1959, pp. 206-212.

While all nonprofit institutions may have many problems in common, the varying nature of their function is such that uniformity of accounting is not only impossible to achieve but may not even be desirable. The matching of costs against related revenue, a basic feature of accounting for business enterprises organized for profit, may or may not be important in a nonprofit institution, depending on the nature of the organization. It may be significant for a hospital, which renders a service in return for a fee based on the cost of the service rendered. For a university, whose tuition fees rarely cover the entire costs of education, the matching of costs against revenues is of little importance.

In determining whether a specific institution should include a charge for depreciation of its institutional property in its operating statements, the institution should consider two aspects of the problem: first, depreciation as an allocation of the historical cost of existing assets over the estimated useful lives of these assets in a systematic manner; secondly, depreciation accounting for the purpose of providing for replacement of existing facilities.

Where costs are an important factor in determining rates to be charged for services rendered, it is appropriate to provide for depreciation and to record it as a charge to operations. Where there is little or no relationship between expenses and revenues and where costs are not an important factor in determining rates, little purpose is served in providing for depreciation, unless it is considered necessary for purposes of replacement.

If it is expected that funds for replacement of existing facilities are to be provided by the institution, depreciation may be charged as an operating expense even though there may be no relationship between expenses and revenues. To the extent that the purpose of recording depreciation is to provide for replacement of existing assets, the provision should be funded.

If replacement of existing assets is expected to be made from general funds at prices considerably in excess of historic cost, the retention of earnings in contemplation of replacement of facilities at higher price levels is as appropriate for nonprofit institutions as it is for enterprises organized for profit. Such portion of the provision for replacements which reflects an increase in the price level should be charged directly to the general fund surplus account. The reserve so created should preferably be funded and carried in the plant funds section.

SYSTEMS

"SYSTEMS WORK IN THE NAVY" by E. D. Dwyer. *Systems and Procedures*, February 1959, pp. 2-10.

The systems approach does not consider methods and procedures in isolation, nor does it view a system as the mere sum of individual methods and procedures. It has a structure of its own which is determined by the *general pattern* of individual methods and procedures. Patterns are not actually observable in the sense that a method or procedure is. When we observe methods and procedures, we see people filling out forms, filing papers, keeping records and writing reports. The pattern underlying this activity is an inference of what is taking place. Instead of describing surface behaviour, we infer that information of a certain kind is being prepared and processed by certain people at a particular time and place for the purpose of guiding certain other people to reach decisions about a specific objective. In other words, when we are dealing with systems as a whole, we are concerned with *what* is communicated, to whom, when, where and why. When we are dealing with the methods and procedures themselves, we are concerned with *how* it is communicated.

Determining *how* the communication should take place is the "nuts and bolts" aspect of the survey and often the major part. There are a wide variety of techniques used in this connection:

1. *Forms Management*: Streamlining processes by eliminating, consolidating, or standardizing forms. Introducing new forms which will simplify the procedure.
2. *Reports Management*: Combining reports, or eliminating them if the information is obtainable elsewhere. Clarifying reporting instructions, and reducing the frequency of reports.
3. *Directives Management*: Developing a logical system for communicating policies and procedures.
4. *Correspondence Management*: Using form letters and pattern paragraphs, and using shortcuts such as stamped endorsements.
5. *Records Management*: Facilitating the location of information and providing automatic procedures for screening and disposing of obsolete records.
6. *Statistical Techniques*: Supporting and aiding management with work measurement, performance standards, quality control, and production control.
7. *Mechanization*: Mechanizing manual methods; integrating information systems.

FINANCE

"ILLUSION IN LEASE FINANCING" by Donald R. Gant. *Harvard Business Review*, March-April 1959, pp. 121-142.

The vital role which accounting plays in the decisions of both corporate financial managers and investors cannot be denied. But it is also true that the accountant's devotion to maintaining a thread of consistency from year to year often makes changes in "generally accepted accounting principles" slow in coming about, with the result that these principles are sometimes in conflict with economic logic. And certainly the soundness of financial policy which subordinates common sense to accounting convention must be questioned.

Yet this appears to be the principal explanation for the trend towards

lease financing. Accounting standards which were appropriate for the treatment of commercial leasing have proved wholly inadequate to cope with the growing challenge offered by the adaptation of the lease as a financing instrument. Out of these inadequacies has come a curious kind of logic which argues that the existence of an asset can be determined or denied by a ledger entry, and that a promise to pay becomes an obligation only if it is reflected in figures on a balance sheet.

This sort of rationalization ignores certain basic economic facts of life. Every business requires certain fixed assets, and the choice available to it is not *whether* to finance these assets but *how* to finance them. Lease financing is one way of acquiring assets, but it is a form of borrowing—in most cases, a very expensive form.

Like all types of borrowing, lease obligations draw on the credit of the borrower, and credit is not a bottomless well. If it is used in one form, it is not available to be used again in another. Accounting deficiencies may have made it possible for some companies to have their cake and eat it, too. There is evidence, however, of a growing awareness among investors and financial analysts of the significance of lease commitments, and this must inevitably be reflected in accounting changes.

When these facts are understood and accepted, lease financing can be viewed in its proper perspective. Perhaps some companies will still find in it advantages which make it preferable to other forms of financing in certain situations. But many others may discover it to be an illusion which has led them to trade economic advantages for accounting benefits.

AUDITING

"INSURANCE RESERVES IN THE ACCOUNTS OF NON-INSURANCE COMPANIES" by William H. Whitney. *The Accounting Review*, January 1959, pp. 37-45.

A reserve for pensions should be an actuarially computed present value of pension benefits which have vested in employees and their beneficiaries if these benefits are payable from funds in the employer's possession. It should be created by charges to income covering the present value of rights which vest during each year. It should be charged with payments to pensioners.

A reserve for pensions may also be an undervalued liability or an appropriation of retained earnings. In reporting on the conformity of a balance sheet to generally accepted accounting principles, an auditor should try to ascertain whether the balance in a reserve for pensions is actuarially sound. If it is not, and if he cannot persuade his client to adjust it, he should qualify his opinion or deny an opinion unless he is sure that the undervaluation is not significant.

"THE RIGHT SIDE OF ACCUMULATED DEPRECIATION" by Sidney I. Simon. *The Accounting Review*, January 1959, pp. 97-105.

The off-set method of presenting accumulated depreciation in a balance sheet is not too well justified. It is not based on a sound theoretical foundation, and gives a false impression of value. On the other hand, the display of the account on the right-hand side of the statement might indeed emphasize its character as a reserve for the contingency of obsolescence, and as a source of the funds the business has employed in investing its as-

sets, whose costs are shown on the left-hand side.

The major purpose of accounting was, for many years, thought to be that of ascertaining net worth. With the conception of an entity as a going concern, the emphasis shifted so that the measurement of net income became the central point of focus in accounting. In recent years, however, another change in the basic purpose of accounting appears to have taken place as an increasing number of businessmen have come to appreciate the significance of cash flow. In such a climate, the statement of funds, and the construction of the balance sheet to give impetus to its interpretation as a possible cumulative funds statement, will assume greater importance.

Accountants should, thus, re-examine the validity of the custom of net plant accounting on the balance sheet, and reconsider presenting accumulated depreciation on the right-hand side.

BOOK REVIEWS

"Electronics in Business", by Gardner M. Jones; Michigan State University, East Lansing, Mich.; 94 pages; $3.50

The purpose of this short book is to assist accountants and industrial managers who are interested in the organizational consequences of electronic data processing. Machine descriptions and technicalities are kept to a minimum, but there are many references for those who wish to delve further.

With the centralization of record keeping required for electronics and the building of a system around the computer, it has been found that the accounting, sales, production, personnel and other departments must not operate as separate functions. "Compartmentalized training and thinking are not in accord with the way business operates."

Emphasis is placed on the greater scope of accountants in both commerce and in the auditing profession. With the advent of small-scale computers and the greater use of service bureaus and with "increasing reliance being placed on the outside accountant as a consultant, not just as an auditor or tax specialist" most accountants should be prepared for electronics.

Mr. Jones sets out several prerequisites for the educational background or re-education of accountants in an electronic era, e.g. higher mathematics, systematic thinking, psychological and sociological sciences, economics, systems analysis and others. He suggests that the concept of the accountant's role should be re-appraised.

J. R. MURRAY, C.A.
Toronto, Ontario

"A Guide to Auditing", by W. T. Dent, F.C.A.; Gee & Company (Pub.) Ltd., London; 135 pages; 21/-.

The subject of auditing in all its aspects is one of considerable magnitude, and it is an enterprising individual who compresses into such a small book a topic which another distinguished person, (the perhaps verbose) Mr. Montgomery, could contain only in a much larger volume. The subject is adequately covered and the author's style is clear and concise, but where is the stuff that stimulates? It is not to be found in such bland observations as ". . . . where the omission [of vouchers] is deliberate . . . detection of the fraud, even if sus-

pected, will be exceedingly difficult." Fortunately, such lapses are not too prevalent.

The subject matter is comprehensive and ranges from a definition of auditing to a discussion of various types of investigations. Chapters are devoted to test audits, balance sheet verification, internal control, audit programs and mechanized accounting systems. The chapter on the last mentioned topic unfortunately opens with a discussion of loose-leaf binders and causes the reader to wonder if the author had difficulty in finding material.

One of the best sections deals with auditing case law, praiseworthy because the cases are presented so succinctly and cover a number of English judgments of historical interest relating to the determination of profits, the legality of dividends and cases which have resulted in development of modern auditing procedures.

The book is recommended as suplementary reading for students-in-accounts and may be helpful to those who are considering auditing as a career. It is doubtful whether the experienced practitioner will either be inspired or rewarded, although some interest may be found in a comparison of Canadian and English auditing practices.

KENNETH H. WARD, C.A.
Toronto, Ontario

"Guide to Estate Planning", by Renc A. Wormser; Prentice-Hall Inc., Englewood Cliffs, N.J.; 175 pages; $4.95

This book serves as a timely reminder that in estate planning human values should not be subordinated to tax-saving and legal techniques. The latter are only a means to sound planning, not an end in themselves. Although the author is a leading American authority in the field, the book is not a mere technical dissertation on American tax law but is concerned primarily with objectives. Hence it is not without interest for the Canadian reader.

The author has aimed his message at the family man and the client, but the professional accountant can also obtain many sound ideas. The style and approach often provoked the reviewer into realizing that tax techniques are undertaken at times without sufficient grasp of the client's personal background.

The style of writing is light, but clear and effective. In 11 short chapters, the author covers objectives in planning for one's wife and children, the investment problem, nature of occupation, the family enterprise, analysis of a prospective estate, etc.

Some aspects concerning trusts, gift tax and charities are mainly American features; in Canadian practice the roles of the lawyer and the banker are more often played by the accountant and trust company.

The chapters dealing with objectives for the wife and children are of greatest pertinence today. To use the author's own words: "The clouds are lovely but you can't live in them. Planning must be related to the world in which we live. Our world now has three characteristics with which you must reckon: Inflation — Our mad tax system — The paternal state."

IRVING L. ROSEN, C.A.
Toronto, Ontario

NEWS OF OUR MEMBERS

Alberta

Clarkson Gordon & Co., Chartered Accountants, Calgary, announce the admission to partnership of T. G. Sheeres, C.A.

British Columbia

R. W. V. Dickerson, B.Com., C.A. announces the opening of an office for the practice of his profession at 817 Park Rd., Richmond.

Power, Bestwick, McDougall & Lavery, Chartered Accountants, announce the removal of their offices to 96 Wallace St., Nanaimo.

Manitoba

J. H. Lyons, B.Com., C.A. announces the opening of an office for the practice of his profession at 502 Confederation Bldg., Winnipeg 2.

C. F. Edwards, C.A. has been appointed vice-president and general manager of Dominion Malting Co. Ltd., Winnipeg.

W. R. Corner, C.A. has been appointed assistant comptroller, revenues, of the Canadian National Railways, Montreal.

Ontario

P. C. Arsenault, C.A. announces the opening of an office for the practice of his profession at Ste. 309, Federal Bldg., Sudbury.

M. H. Lass, C.A. announces the opening of an office for the practice of his profession at 212 Goddard St., Downsview.

K. H. Ward, C.A. announces the opening of an office for the practice of his profession at 116 Wincott Dr., Weston.

R. R. Smith, B.Com., C.A. announces the admission to partnership of J. G. Roberts, B.Agr. Sc., C.A. Henceforth, the practice of their profession will be conducted under the firm name of Smith, Roberts & Co., Chartered Accountants, with offices at Ste. 547, 17 Queen St. E., Toronto 1.

H. H. Sivers, C.A. has been appointed a director of Bausch & Lomb Optical Co. Ltd., Toronto. He also continues as treasurer and controller of the company.

J. A. Mennie, C.A. has been appointed controller of John Labatt Ltd., Toronto.

R. W. Lott, C.A. has been appointed comptroller and office manager of Welcon Ltd., Guelph.

E. W. Yeo, C.A. has been appointed general manager of the Steel Warehouse Division, Dominion Bridge Co. Ltd.

L. J. Mills, O.B.E., C.A. has been appointed comptroller of Canadian National Railways.

Deloitte, Plender, Haskins & Sells, Chartered Accountants, announce the opening of an office at 66 King St. E., Hamilton. The resident partner is Eddie C. Wilburn, C.A.

Johnston Smith, C.A. has been appointed regional auditor for the western region of the Canadian National Railways, with headquarters in Winnipeg.

Quebec

M. R. Sichel, C.A. announces the admission to partnership of Albert Ansky, C.A. Henceforth, the practice of their profession will be conducted under the firm name of Sichel, Ansky & Co., Chartered Accountants, with offices at Ste. 314, 5757 Decelles Ave., Montreal.

OBITUARY

We regret to announce the death of the following member:

MORRIS GOODMAN – Mr. Goodman died on March 26 in Montreal at the age of 67. He was born in Poland and came to Canada in 1898. Admitted to the Ontario Institute in 1914, he established a practice of his profession in Montreal and joined the Quebec Institute in 1924. Since 1931 he has been in partnership with his brother Bernard in the Montreal firm of Goodman & Goodman.

INSTITUTE NOTES

B.C. INSTITUTE

Vancouver Island C.A. Club: On March 13, the Royal Colwood Golf and Country Club was the scene of the V.I.C.A. club's annual cocktail party which this year was extended to include a highly successful dance.

C.A. Club of Vancouver: Dr. E. D. MacPhee, Dean of the U.B.C. Faculty of Commerce and Business Administration, delivered an address on the future of the fruit-growing industry in B.C. at the April 6 luncheon meeting.

At the May 4 luncheon meeting, Dr. Iser Steiman, former R.C.A.F. medical officer, is giving an illustrated talk on his visit to various medical centres throughout the Soviet Union.

School Counsellors' Meeting: The joint meeting of school counsellors and members in the Greater Vancouver and Lower Fraser Valley has developed into a highly successful annual affair. This year's dinner meeting was held at the Terminal City Club on March 18, with Jack Ewing as chairman and T. Howard Dinsley as convener. Roy Holmes, senior boys' counsellor for Killarney Secondary School, led the discussion for the 18 school counsellors attending. The B.Com.-C.A. combined course and proposed Institute scholarships for high school students formed major topics of discussion.

ONTARIO INSTITUTE

Annual Dinner: 805 members and guests attended the largest annual dinner in the history of the Institute held in the New Canadian Room of the Royal York Hotel. J. Douglas Gibson, O.B.E., general manager of the Bank of Nova Scotia, spoke on the timely subject of "inflation". In the course of the proceedings presided over by the president, M. A. Bradshaw, a life membership certificate was presented to Gordon D. Campbell who became a member of the Institute in 1909. The medals and prizes for the examinations were presented by the president, and the members of the largest graduating class were welcomed to the dinner as special guests.

Public Forum: The Institute's excursion into this field on March 17 was a decided success, the result of having a first-class panel and restricting the questions answered to the "man-on-the-street" level. Income tax problems were discussed by A. J. Little, moderator, and panelists W. J. Ayers, C. L. King, L. J. Smith and W. G. Thompson, all of Toronto. The forum attracted about 200 people who formed a closely attentive audience. Considerable newspaper coverage resulted and further publicity will come from broadcasts by radio stations throughout Ontario of a series of tape recordings made during the forum. In view of the public response it is fairly certain the Institute will make an event of this kind a regular feature of spring activities.

Members by Affiliation: The following applicants were admitted to membership by affiliation on March 13, 1959; Norman Elias (Que. '58), Elgin Graham Gork (Man. '52), Alan Samuel Spiro (Eng. '55).

Historical Prints: Five reproductions of Whitfield prints of Upper Canada cities have been painted and hung in the board room of the Institute. The original paint-

ings were made in the 1850's and the prints from which the copies were taken are in the John Ross Robertson collection of the Toronto Reference Library. The cities, all of which were in "Canada West", are London, Hamilton, Toronto, Kingston and Ottawa.

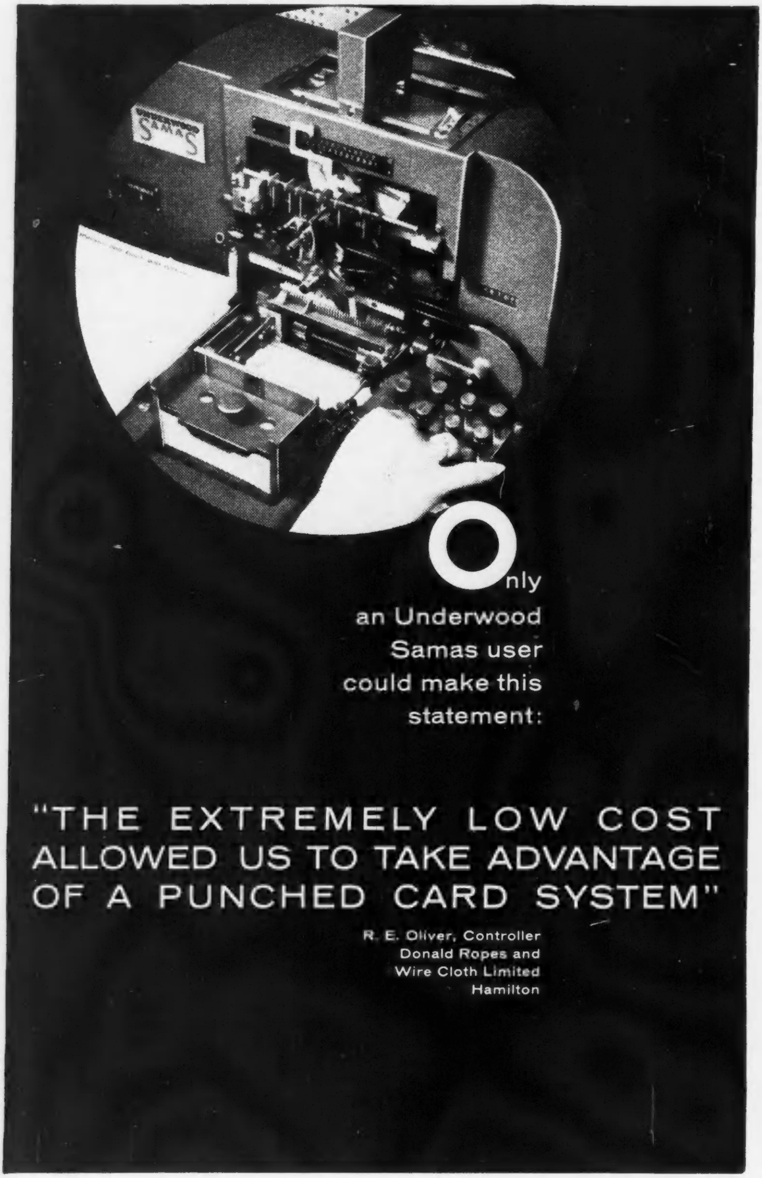
Fourth Annual Conference: Arrangements have been made to hold the conference on June 14-16 at the University of Toronto. Residence accommodations will be in Trinity College on Hoskin Avenue. The large meetings will be held in the Museum Theatre, and smaller groups will meet in the Economics Building, 273 Bloor Street West. C. L. King, F.C.A. and his committee are working to prepare an interesting program of technical sessions. The annual meeting of the Institute will be held on Monday, June 15, in the Museum Theatre at 2:30 p.m. Requests to submit nominations for the Council will be sent to all members on May 1, and nominations may be submitted until May 25.

Canadian High News: The Career Information Committee arranged an advertisement in the "Careers Annual" of *Canadian High News*, a newspaper which is distributed to over 100,000 high school pupils and teachers throughout Canada. The full-page advertisement, with illustrations, uses the text of the booklet "Chartered Accountancy . . . a key to greater opportunities". Although the advertisement will cost $700 it will reach a tremendous number of potential students of whom approximately half are in the Province of Ontario.

ONTARIO STUDENTS

April Meeting: April 1st was full (no pun intended) of surprises at the meeting held in the C.A. building for Metro. Toronto students. Derek Harris, C.A., a former government officer with the Vakaranga tribe in Africa, described in a delightful manner the accounting modes and the life of these primitive people. Question time was boisterously hilarious as students sought the answers to some accounting problems which can occur in an economy where a wife is a capital asset (subject to depreciation?)! Balance of the program centred around re-

Continued on page 470


SAMAS
Only
an Underwood
Samas user
could make this
statement:
"THE EXTREMELY LOW COST
ALLOWED US TO TAKE ADVANTAGE
OF A PUNCHED CARD SYSTEM"
R. E. Oliver, Controller
Donald Ropes and
Wire Cloth Limited
Hamilton

Continued from page 467

freshments and a full length musical comedy feature film in colour. The evening was voted most successful.

Sports Day: June 4 is sports day for Metro Toronto students, with the annual golf and tennis rallies to be staged. Golf will be at the Aurora Highlands course "just north of Toronto" (by real estate advertising standards this means within a two hour drive of the city limits). Golf fee is $2.00 and there is a generous line-up of prizes for both the top seeded and the divot diggers. All are welcome. Tennis locale is to be arranged.

Baseball: Over 20 teams are entered and the leagues are just getting underway now in Toronto. Always popular, the baseball season seems to excite even more interest now than formerly and we can expect tough competition for the play-off spots. William Eisenberg & Co. won last year's tussle and will be aiming to preserve their top position, while Glendinning, Campbell, no doubt, will be battling to regain their previous star-spangled reputation. Fireworks may well result!

Blazer Crests and Lapel Pins: Probably a number of the newer students are not aware that the association has for sale very attractive blazer crests and lapel pins incorporating the coat of arms of the Institute. These are sold at cost as a service to members. Student members of the association can secure blazer crests for $7.00 and the lapel pin for $1.50. Chartered accountants, presumed to be more affluent, are asked to pay $8.00 for the blazer crest and $2.00 for the lapel pin. Terms of payment are cash with order, and supplies are available through the Institute office.

Annual Meeting: Ballots will be in the mail to all Ontario students within the next few days. They are to be lodged with the Institute when completed and not later than noon of May 21. Don't ignore your responsibilities — exercise your privilege to *vote* for your favourites. The annual meeting will be held starting at 8:00 p.m. on Thursday, May 21 in the Institute building, 69 Bloor St. E., Toronto. Business will be kept to an absolute minimum, to allow plenty of time for the films and refreshments.

CLASSIFIED ADVERTISEMENTS

All replies to box numbers should be sent to The Canadian Chartered Accountant, 69 Bloor Street East, Toronto 5, Ontario.

Rates: *Positions wanted, $7.00 per column inch; Positions offered, $10.00 per column inch; Open rate, $17.00 per column inch.*

Closing date is 13th of preceding month.

ACCOUNTING PRACTICE WANTED in the Niagara Peninsula. Direct purchase preferable. Box 881.

ACCOUNTING PARTNERSHIP wanted in Metropolitan Toronto by outright purchase or agreement for succession. Box 883.

PURCHASE PRACTICE, Individual accounts, or partnership with sole practitioner anticipating retirement within 10 years, Montreal. Box 890.

CENTRALLY LOCATED air conditioned office available, furnished or unfurnished, with all facilities if desired on office floor of modern building. Ideal for a professional man. Ste. 1085, 1435 St. Alexander St., Montreal.

ACCOUNTING PRACTICE WANTED in Toronto or vicinity by purchase or succession agreement. Box 892.

CHARTERED ACCOUNTANT, age 35, 8 years in senior capacity in international firm since graduation desires supervisory position with medium size firm with partnership prospects. First class administrator — highest references. Box 889.

AVAILABLE: Chartered accountant, recent graduate with national firm, desires position in industry. Box 879.

OPPORTUNITY in Eastern Ontario for chartered accountant who wants to establish own practice. Box 880.

C.A. AVAILABLE: Intelligent, energetic, chartered accountant, recent graduate, desires position, leading to partnership or succession, with small or medium accounting firm in Montreal. Box 882.

CHARTERED ACCOUNTANT with extensive professional and commercial experience wishing to re-locate Pacific Coast will buy into established practice in Vancouver by partnership or succession agreement. All offers will be treated in strictest confidence. Box 884.

CHARTERED ACCOUNTANT, age 27, desires position with industrial or commercial concern. Taxation experience. Available immediately. Box 885.

CHARTERED ACCOUNTANT AVAILABLE: 1956 graduate, Commerce degree, R.I.A., interested in permanent position with industrial concern. Box 887.

CHARTERED ACCOUNTANT, age 28, with diversified professional experience in eastern and central Canada since qualification, desires association with small C.A. firm, with partnership prospects. Box 886.

YOUNG CHARTERED ACCOUNTANT, B.Com., single, seeks interesting position outside Canada. Box 888.

CHARTERED ACCOUNTANT, B.Com. degree, broad professional insurance, municipal, and taxation experience requires position. Box 891.

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STEWART, SMITH & MACKEEN

Barristers and Solicitors

Roy Building - - - - - - Halifax, N.S.

ROSS & ROBINSON

Barristers and Solicitors

Canadian Bank of Commerce Chambers - Hamilton, Ont.

GOWLING, MacTAVISH, OSBORNE & HENDERSON

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BORDEN, ELLIOT, KELLEY & PALMER

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The Bank of Canada Building, 250 University Avenue - Toronto 1, Ont.

McLAUGHLIN, MACAULAY, MAY & SOWARD

Barristers and Solicitors

302 Bay Street - - - - - Toronto 1, Ont.

WRIGHT & McTAGGART

Barristers and Solicitors

67 Yonge Street - - - - - Toronto 1, Ont.

BEAULIEU, BEAULIEU & CASGRAIN

Barristers and Solicitors

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Bank of Canada Building - Montreal 1, Que.

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Barristers and Solicitors

464 St. John Street - - - - - Montreal 1, Que.

STIKEMAN & ELLIOTT

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505 Bank of Canada Building - - Montreal 1, Que.

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